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**How are systems of bottom-up consent manufactured in financialised capitalism?  
British and Danish residential capitalisms compared**

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King's College London

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**How are systems of bottom-up consent manufactured in financialised capitalism?  
British and Danish residential capitalisms compared.**

**By  
James D. G. Wood**

**This thesis is submitted to King's College London  
for the degree of Doctor of Philosophy**

## Abstract

*This research project examines why systems of mortgage finance in Britain and Denmark have largely been immune to substantive reform, despite the failures and costs manifested by the 2008 global financial crisis. Neo-Weberian scholars currently dominate this research area, and suggest deregulated mortgage markets are maintained to facilitate access to the social norm and material gains of private housing to foster bottom-up consent to political party rule. However, whether private housing is an independent social norm is highly questionable, and the financial gains from homeownership are highly stratified. Additionally, the emphasis on the home as a financial asset fails to account for the decline in wages as a share of GDP, which is negatively affected by the process of financialisation. This thesis deploys a quantitative analysis to assess whether there is any meaningful relationship between the falling wage share and the vast expansion of mortgage credit, and a qualitative examination of whether there is a deliberate social purpose encoded in public policy formulation to meet such ends. The results from the time-series regression analysis demonstrated that the increased distribution of mortgage credit does have a negative effect on the wage share in Britain between 1979 and 2012, but not in Denmark. The qualitative analysis of the British case demonstrated that mortgage credit was deregulated to establish a mortgage-led financialised accumulation regime that increased the capital share of GDP at the expense of wages. Additionally, the disciplinary mechanisms of mortgage credit were used to integrate deviant trade union members into a functioning social formation. Alternatively, the qualitative analysis of the Danish case revealed how mortgage finance has been restricted and liberalised to regulate the performance of the macro-economy. The Danish government uses mortgage credit to intervene in the economy as the country's integration into the European and global economy have marginalised their ability to use traditional fiscal and monetary policy interventions. A comparative analysis of British and Danish mortgage systems connected them to the wider political economy of each state, specifically welfare state structures and industrial relations, which explains the necessity of maintaining liberalised mortgage finance markets in Britain and Denmark.*

## Table of Contents

<b>Introduction</b>	<b>1</b>
<b>Chapter 1 - The Political Economy of Financialisation and The State</b>	<b>14</b>
The Political Economy of Financialisation and Mortgage Credit	15
Marxist State Theory	28
<b>Chapter 2 - Theorising the Financialised State</b>	<b>38</b>
The Basis of The Strategic Relational Approach	39
Structure and Agency, and the SRA	41
Six Dimensions of the State	43
Power and Interests Within the State	50
Considerations and Adjustments to the SRA	53
Comparative Political Economy Typologies	57
<b>Chapter 3 - Method</b>	<b>67</b>
Methodologies and Critical Realism	68
Quantitative Research Design	74
Quantitative Data Collection	77
Qualitative Research Design: Case Studies and Process Tracing	78
Qualitative Research Method at the Operational Level	81
Interview Data Collection	85
<b>Chapter 4 - The Effects of the Distribution of Mortgage Credit on the Wage Share</b>	<b>90</b>
Empirical Design	91
Data	94
Descriptive Analysis	96
Individual Country Results	106
Data Validation Techniques and Diagnostic Tests	108
Expanded Model Specification	109
Discussion	110
<b>Chapter 5 - The Role of Mortgage Credit in the Political Economy of Britain</b>	<b>115</b>
Housing Tenures in Britain	117
The Mortgage-Led Financial Accumulation Regime	122
Mortgage Finance as a Mode of Regulation	128
The Role of Mortgage Credit in the Wider British and International Political Economy	133
<b>Chapter 6 - The Role of Mortgage Credit in the Danish Political Economy</b>	<b>142</b>
Housing Tenures In Denmark	144
Housing and Demand Management in Denmark	147
Mortgage Credit and Monetary Policy in Denmark	152
Placing Mortgage Credit Within the Wider Danish and International Political Economy	158

<b>Chapter 7 - The Comparative Political Economy of Mortgage Institutions</b>	<b>168</b>
The British Mortgage System	170
The Danish Mortgage System	174
Comparing the British and Danish Mortgage Systems	176
Welfare State Structures in Britain and Denmark	178
Systems of Wage Bargaining and Industrial Relations	184
<b>Conclusion</b>	<b>190</b>
<b>Interview List</b>	<b>200</b>
<b>Works Cited</b>	<b>201</b>
<b>Appendix A – Description of Quantitative Data</b>	<b>232</b>
<b>Appendix B – Description of Qualitative Dataset</b>	<b>233</b>

## List of Figures

FIGURE 1: EMPLOYEE COMPENSATION SHARE OF GDP	99
FIGURE 2: THE OMB SHARE OF GDP	100
FIGURE 3: UNEMPLOYMENT RATE WITH TREND	102
FIGURE 4: CHANGES IN THE WEIGHT MEAN RILE INDEX	103
FIGURE 5: DENMARK'S BALANCE OF PAYMENTS, 1975-2015	154
FIGURE 6: RECESSIONS IN DENMARK BETWEEN 1979 AND 2012	156
FIGURE 7: MORTGAGE AND SOVEREIGN DEBT AS A SHARE OF GDP: 1980-2010	162

## List of Tables

TABLE 1: ELITE POLICY MAKER INTERVIEW TOPICS AND QUESTIONS	86
TABLE 2: MORTGAGE LENDER INTERVIEW TOPICS AND QUESTIONS	87
TABLE 3: DESCRIPTIVE STATISTICS 1	96
TABLE 4: DESCRIPTIVE STATISTICS 2	98
TABLE 5: RESULTS OF THE PCSE AND OLS ANALYSIS	105
TABLE 6: SPECIFICATION MODEL RESULTS	109
TABLE 7: HOUSING TENURES IN BRITAIN: 1961-2010	119
TABLE 8: HOUSING TENURES IN DENMARK: 1960-2010	145

## Abbreviations

ABW	Asset-Based Welfare
AR1	First Order Autocorrelation
CDO	Collateralised Debt Obligations
CML	Council of Mortgage Lenders
CMP	Comparative Manifesto Project
CR	Critical Realism
DBIS	Department of Business, Industry and Skills
DCLG	Department of Communities and Local Government
DSS	Department of Social Security
EMS	European Monetary System
ERM	Exchange Rate Mechanism
EU	European Union
FDI	Foreign Direct Investment
FE	Fixed Effects
FSA	Financial Services Authority
GDP	Gross Domestic Product
GFC	Global Financial Crisis
HTB	Help to Buy
ICT	Information Communication Technology
IMF	International Monetary Fund
LIBOR	London Inter-Bank Overnight Rate
LSE	London Stock Exchange
MBS	Mortgage-Backed Securities
NDP	Net Value-added to Domestic Product
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
OMB	Outstanding Mortgage Balance
ONS	Office of National Statistics
PCSE	Panel Corrected Standard Errors
RE	Random Errors
RILE	Right-Left
ROT	Rule of Three
RTB	Right to Buy
SME	Small-Medium Enterprise
SRA	Strategic Relational Approach
SWS	Schumpeterian Workfare State
TUC	Trades Union Congress
UK	United Kingdom
USA	United States of America
VOC	Varieties of Capitalism
VORC	Varieties of Residential Capitalism
WSR	Welfare State Regimes

## Introduction

*“Try to understand that in these financial matters it is vital to excite the imagination.  
The great idea is to take the money out of people’s pockets before it has even got  
there.”*

Émile Zola (2014, 223)

The 2008 global financial crisis (GFC) may be considered the archetype of the potentially destructive crises that are a feature of advanced capitalism, the central trigger of which emerged from the widespread global investment in collateralised debt obligations, predominantly in the form of securitised sub-prime mortgage products in the United States of America (USA) (Mian et al, 2010). The degree of interconnection in global finance allowed contagion to spread quickly from the USA towards peripheral financial markets, which resulted in the most severe and prolonged global financial crisis since the Great Depression of the 1930s. The devastating potential negative impact of such a crisis motivated central governments to implement a coordinated policy response that oversaw a huge fiscal investment in financial institutions, aimed at maintaining liquidity in financial markets. In advanced economies, the median direct fiscal cost of the GFC amounted to 5.9 per cent of GDP, an increase of 25.1 per cent in public debt, and a 24.8 per cent loss of national output (Laeven and Valencia, 2012, 22). Additionally, approximately 70 per cent of the fiscal expenditure cost can be directly connected to the outlays absorbed by the public sector recapitalisation of financial institutions, in order to maintain the operation of the financial sector in advanced economies (Laeven and Valencia, 2012, 16). However, as asked by Gamble (2014), despite the severity of the failures and costs manifested by the GFC, why has the global dominance of the financial sector largely gone unchallenged, and why is it that the financial system itself has been relatively immune to substantive reform?

State-of-the-art research suggests that a large part of the answer resided in the rise to prominence of the financial sector, which cannot be reduced to “high finance” operating above other sectors. Rather, finance has come to permeate other parts of the economy, most notably in the everyday life of wage-earners in mass society. This has been achieved through the widespread integration of workers’ pensions-savings and mortgage-lending into commodity



vehicles such as securitised financial products (e.g. Froud et al, 2002; Schwartz, 2008). The incorporation of financial services into the everyday lives of workers has been identified as a “mode of regulation” that establishes a series of structural path dependencies for households who engage with them in at least two significant ways (Froud et al, 2002, 120): Firstly, private investment in financial security vehicles redirects a large pool of investment capital from households towards the financial sector (Froud et al, 2002, 127). Secondly, and where this project seeks to make an original contribution, household demand for access to housing finance, which is contingent on a borrower’s credit history and employment status, leads households to modify their behaviour to meet the demands of mortgage firms and indirect lenders in the financial securities markets (Langley, 2014). The relationship between households and the financial sector has been promoted and facilitated by the institutions of the state in several advanced capitalist economies. In order to avoid the identification of a state that is either authoritarian or biased purely in the interests of the financial sector, which is not wholly relatable to the political, social and economic institutional frameworks of liberal capitalist democracies, there is a need to identify the bottom-up motivations for households to demand and adhere to such structured modes of behaviour regulation in advanced financialised economies. Neo-Weberian scholarship (e.g. Schwartz, 2008; Seabrooke, 2002) can be considered state-of-the-art for understanding this relationship. It has identified both “bottom-up” and “every day” mechanisms of consent that see individuals actively demand access financial services in order to achieve the positive outcomes from such an engagement. Yet, Neo-Weberian conclusions raise more questions for research.

Neo-Weberians suggest that citizens consent to financialised capitalism because the state promotes the production, reproduction and wide distribution of socially beneficial outcomes in terms of access to social norms and material gains (Seabrooke, 2002, 29). Private owner-occupied housing has been identified as both an independent social norm and a means of accessing material gains from a financial asset (Schwartz, 2008, 274-281). Therefore, from a Neo-Weberian standpoint, the government may seek to influence bottom-up consent by providing citizens with access to the social norm of private housing and the material gains from the owner-occupied home as a financial asset through the widespread facilitation of access to mortgage credit (Schwartz, 2012). The home can be considered a highly significant financial asset, as property ownership, predominantly in the form of private owner-occupied housing, has

been identified as one of the main drivers of increased wealth in advanced economies (Piketty, 2014; Rognlie, 2015). The increase in housing wealth in Britain, for example, is highlighted by the 1,200 per cent increase in mean nominal house values in Britain between 1979 and 2012 (ONS, 2015a). But more recent research on financialisation warrants at the very least equivocation of the Neo-Weberian thesis of the promotion of owner-occupied housing as widely distributed and an unambiguous material gain and positive social norm. For instance, the distribution of housing wealth across Britain is highly stratified, with most of the wealth concentrated in the upper income deciles and in geographical locations near London (Montgomerie and Büdenbender, 2015, 6). Housing wealth is also distributed unevenly between generations, as older homeowners have been able to accumulate vast amounts of housing wealth at the expense of the younger generation in Britain (Willets, 2010). Therefore, the financial gains from housing are bound by temporal, geographical and social factors, which suggest that owner-occupied housing may not be considered wholly viable as a financial asset that provides consistent and widespread material gains across the British population (Montgomerie and Büdenbender, 2015, 7-9). Additionally, by providing uneven access to the housing asset, systems of mortgage finance reproduce inequalities and division between social groups, which are further conditioned by government policies (Roberts, 2013).

Among the questions that Neo-Weberian scholarship leave unanswered are those that pertain to the functional distribution of income between the factors of production, capital and labour. It is to the answering of these questions that this thesis seeks to make an original contribution. While the owner-occupied home is the most prevalent and significant financial asset in the portfolio of many workers, it is still employee compensation in the form of wages that is the dominant source of income and material gain for the majority of households in advanced capitalism (Froud et al, 2010, 152; Diacon et al, 2009; Montgomerie and Büdenbender, 2015, 6, 16). Despite the importance of wages as a source of material gains, the wage share of national income in Britain, for instance, has declined since the 1970s (Haldane, 2015, 11). The predominant cause of this observed decline of the wage share in advanced economies has been identified as financialisation, which can be broadly defined as “the greater autonomy of the financial sector, the proliferation of financial institutions and instruments, and the integration of a broad range of economic actors in financial markets” (Stockhammer, 2013; Callinicos 2010, 34). Therefore, although Neo-Weberian theory makes an important contribution by placing an

emphasis on the everyday life of wage earners in establishing bottom-up consent to the political and economic infrastructures the individual finds themselves in, it fails to provide a sufficient account of both the government influence over social norms, and why citizens would actively demand to engage with the structural path dependencies of mortgage finance promoted by a political system that has not overseen the widespread improvement in the distribution of material gains from the housing asset or the wage share of national income.

Current research can then be seen as having identified an as-of-yet underexplored tension in financialised capitalism, which involves the wage-relation. It is the overarching aim of this thesis to contribute to understanding of this tension, which can be formulated as follows: In economies with housing systems with a strong preference for private owner-occupied housing, state facilitated distribution of mortgage credit has been identified as a mechanism of bottom-up consent that widens worker access to a financial asset that augments their income from employment; whilst at the same time, mortgage credit is a key channel of financialisation, which is a phenomenon that has been identified as having a highly significant negative effect on the distribution of the material gains of employees in advanced capitalism. One of the very few works on this topic that encapsulates where the research frontier is today is an econometric analysis by Köhler et al (2015).

This analysis is based on a theoretical framework that examines how taking on debt establishes “investor identities” for borrowers, who seek to mitigate the negative consequences of debt default (Köhler et al, 2015, 9). The results of this analysis have demonstrated that increased levels of aggregated household debt, as a proxy for the diffusion of the “investor identity” in an economy, are an important causal factor in the reduction in the wage share in advanced economies (Köhler et al, 2015). Here household debt is understood as the aggregate of all forms of liabilities that require payment of interest and principal by a debtor to the creditor, which can take the form of several financial instruments, such as debt securities, loans, currency and deposits (Köhler et. al, 2015, 10; BIS, 2016, 290). However, not all forms of household debt carry the same debt burden or the same severity of negative consequences from default, which suggest that there is a variation in the disciplinary effects of specific channels of household debt, which is unaccounted for by Köhler et al (2015).

The largest debt burden incurred from a single channel of household debt is mortgage finance, which carries the most significant negative consequences of default from all sources of

household debt (Montgomerie and Büdenbender, 2015). For example, one can be forcibly removed from one's property if repayments are not made in accordance with the lending agreement. The negative threat of mortgage default has been identified as a disciplinary device that encourages borrowers to demand stable employment to avoid the negative threat of mortgage default (Grey, 1997, 49). However, despite the importance of mortgage credit as a significant and widely diffused channel of financialisation (e.g. Aalbers, 2008), as well as the severely negative consequences of mortgage default, the analysis by Köhler et al (2015) fails to account for the specific effects of the mortgage credit channel of household debt on the functional distribution of national income. Therefore, this project will attempt to address this important lacuna in current research, which suggests two central research questions:

1. Is there any meaningful relationship between the falling wage share and the vast expansion of mortgage credit across the different varieties of capitalism?
2. What public policy *formulation and implementation* processes would need to be present to explain the presence or absence of such a phenomenon between different varieties of capitalism?

These questions are investigated in this thesis through a mixed-methods research design, drawing on quantitative as well as qualitative sources. The focus of the analysis is a comparison of the British and Danish cases. The starting point of this analysis is based on *prima facie* evidence that each of these cases has experienced an absolute reduction in the wage share of national income, combined with increasingly advanced financialised housing markets despite being examples of polar-opposite liberal and social democratic varieties of welfare capitalism (Esping-Andersen, 1990). The rationale is that such potentially common outcomes in “most different” cases (e.g. Przeworski and Teune, 1970) allow for the elucidation of possible key general mechanisms of advanced capitalist society.

As presented in chapter four, a more sustained and deeper quantitative assessment demonstrates that there are different results for the UK and Denmark. The regression models show that the increased distribution of mortgage credit does have a negative effect on the wage share in the liberal welfare regime (or, in slightly different terminology, the liberal variety of

residential capitalism (VORC)) of the UK between 1979 and 2012. However, the results also demonstrate that there is no significant relationship between mortgage debt and the wage share in the social democratic welfare regime (or corporatist VORC) of Denmark during the same time period. Therefore, the effects of the increased distribution of mortgage credit on the wage share of national income, as postulated for instance by Köhler et al (2015), may not be considered to constitute a generalisable relationship that is applicable across advanced financialised capitalism. These results suggest that the differentiated structure of mortgage systems can play a significant role in the wider political economy and generate significant variations between cases. A comprehensive explanation of the divergent results is beyond the scope of a quantitative analysis, however. Therefore, a qualitative examination of both cases, using a Critical Realist retroductive framework, was deployed to ascertain the conditions necessary for such a relationship between the increased distribution of mortgage credit and the reduction of the wage share to be present in the British case, but not in the Danish case.

The qualitative analysis of the British case uses Jessop's (1982; 2008; 2016) "Strategic Relational Approach" (SRA) to demonstrate how successive British governments established a mortgage-led accumulation regime, which subjected workers to the disciplinary mechanisms of mortgage finance to reproduce the conditions for capital accumulation at the expense of wages. The Thatcher government extensively promoted private housing to foster mortgage-led economic growth, which generated vast sums of revenue for the financial sector, and stimulated Britain's waning economy. Engaging with the disciplinary mechanisms of mortgage credit shifts labour market preferences from demanding wage growth to stable employment, and was used by the Thatcher government to integrate disruptive trade union members into liberal capitalism. Therefore, this chapter makes a significant contribution by identifying the use of mortgage credit as both a means to accumulate capital and mode of behaviour regulation by the Thatcher government as part of a mortgage-led financialised accumulation regime. The mortgage-led accumulation regime was reproduced by the administrations that succeeded the Thatcher government, as New Labour introduced a series of asset-Based Welfare (ABW) policies that relied on the private home as a vehicle to access private welfare services, which was a policy continued by the Coalition government. The reliance on mortgage debt to access private welfare services suggests that Britain may be understood as a type of financialised "debtfare" state, generating capital for the financial sector. Yet, the reliance on mortgage finance to access to

private welfare is also contingent on the members of the household having paid employment. Therefore, this chapter makes a second contribution by linking the financialisation literature to the workfare state literature, as the private provision of welfare goods and services that are only accessible via mortgage credit leveraged against a private housing asset has established a workfare-debtfare hybrid state in Britain, which restricts access to welfare goods based on the individual's employment status and accumulates capital for the financial sector.

The results of the qualitative analysis of the Danish case, by contrast, suggest that changes in mortgage finance regulations have been used as a technical mechanism by the Danish state aimed at achieving the specific objectives of a small corporatist state under new circumstances, rather than challenging trade unionism per se. In Denmark, mortgage policies are stringently regulated by the state, and mortgage regulations have been both tightened and loosened to adapt to industrial and macroeconomic policy needs. The deregulation of mortgage policy since the 1990s has been considered a means of increasing domestic consumption, by encouraging home equity withdrawals, which can be tightened if the government believes the economy is over-heating. Additionally, since the 1960s, the Danish economy has experienced a balance of payments deficit, and as Denmark pegged its currency to other European countries through the ERM I and II, monetary policy, often considered a means of mitigating a balance of payments deficit, is ineffective to redress the problem. Instead, the Danish government sought to increase the domestic savings rate as a means of addressing the balance of payments deficit, and has used mortgage credit both as a means of manipulating interest rates, to encourage saving, as well as providing access to credit to simultaneously increase consumption and savings rates to maintain national output without endangering the balance of payments. These changes were initiated by the Danish government under the "potato diet" programme of 1986 to solve the balance of payments problem at the expense of employment, which suggests that the 1986 "potato diet" may be considered Denmark's own version of the Volcker shock, with developing a balance of payments surplus as a priority, rather than inflation targeting, as with the US Federal Reserve. The results from the Danish case also suggest that the institutions of the state have used mortgage credit as a technique to reproduce the conditions for economic growth, without favouring a particular economic, social or political faction (e.g. Panitch, 1980), unlike in Britain. In this regard, the thesis contributes to the literature on the political economy of small corporatist

states by demonstrating that financialisation can be used to sustain such arrangements under conditions characterised by liberal and mobile financial markets (e.g. Katzenstein, 1985; 2003).

From a comparative political economy perspective, this thesis demonstrates that there are four important differences in the institutional configurations between the British and Danish cases that have resulted in the divergent disciplinary effects of mortgage credit: (1) mortgages in the liberal British market are often provided at a much higher cost to the borrower than in the corporatist market of Denmark, which increases the disciplinary effects of the mortgage payment on the borrower; (2) the widespread use of covered mortgage bonds in the Danish mortgage system allows for more flexible renegotiations in periods of borrower economic uncertainty in comparison to the securitised mortgage products in the British market; (3) the increased level of co-operative collective bargaining in the corporatist state of Denmark strengthens worker wage negotiations, thereby mitigating the disciplinary weight of the mortgage payment as a share of waged income; and (4) the liberal market of the UK has a commodified asset-based welfare (ABW) system, which emphasises the importance of financial gains from the private housing asset as a means of accessing welfare services. The absence of de-commodified welfare provision, as in Denmark, may reinforce the “investor identities” of loss averse borrowers and increase the disciplinary effects of mortgage credit in Britain in comparison to Denmark.

The thesis substantiates this argument by way of two sections across seven chapters: the first part covers the first three chapters, and outlines the theoretical framework and methods deployed. The empirical analysis is presented in the second section, which makes up the last four chapters. The first chapter reviews the relevant literature pertaining to the key topics that this project seeks to engage with, which will examine the political economy of financialisation and mortgage credit, the determinants of the wage share of national income, and Marxist state theory. The first section of the first chapter describes the different theoretical positions surrounding the political economy of financialisation and mortgage credit as it pertains to the state. The section starts from an evaluation of the Hayekian position, and moves onto Keynesianism, specifically the post-Keynesian critique of neo-classical economics, which highlights the importance of the functional distribution of national income between the factors of production. The analysis of the determinants of the wage share of national income starts from the classical economists, such as Smith (1976) and Ricardo (1821), and develops into an analysis that identifies the phenomenon of financialisation as the most significant causal factor in the reduction of the wage share

(Stockhammer, 2013, 42). This section will conclude with an analysis of the Neo-Weberian, Foucauldian, and Marxist understandings of financialised mortgage systems. As there is prime facie evidence that both Denmark and the UK have experienced an increase in capital accumulation at the expense of wages between 1979 and 2012, and the facilitation of mortgage credit is the main way that states can intervene in the private housing market, the final section of the first chapter will outline and assess the key theoretical tenets of four key Marxist theories of the state; State Monopoly Capitalism, Open Marxism, the *Staatsableitung* (state derivation) approach, and Neo-Gramscianism.

The second chapter outlines the theoretical framework used by this project, which adopts the SRA as the form of Marxist state theory used to examine the cases of Britain and Denmark. This theoretical chapter will outline the key tenets of the SRA, and examine the pertinent concepts that highlight the relevance of the SRA in the analysis of power relations within the British and Danish states. This chapter will also contain an examination of the ontological and epistemological assumptions that underpin the SRA, which are based on a Critical Realist framework, in order to provide a foundational justification for the methods used by this project that will be outlined in the third chapter. The next section of this chapter will discuss six key dimensions of the state, which are linked to the different modes of representation, articulation and intervention in the state, as well as the social basis of the state, the state as a state project, and the relevance of hegemonic visions (Jessop, 2016, 58). These six dimensions of the state can be influenced by the various economic, political and ideological powers and interests within a state, which will be related to an analysis of Foucauldian governmentalities as a technique of power that can also be incorporated into the SRA (Jessop, 2007, 2008). The final section will seek to integrate the SRA with the VORC typologies, which allow for a comparative political economy account of different housing systems that will be analysed in detail in chapter seven.

The third chapter provides a justification of the mixed-methods research design used to examine the two research questions of this thesis, and how they relate to the underlying ontological and epistemological assumptions of Critical Realism that shape this project. The method used to examine the first research question is based on a series of quantitative econometric regression models using time-series data, while the second research question will be evaluated using qualitative methods in the form of a comparative case study between Britain and Denmark, which will also incorporate the method of process tracing. This chapter will also



outline the key quantitative and qualitative data collection techniques used by this project. This chapter describes the various sources of data used in the construction of an original quantitative dataset for this thesis, as a pre-collated dataset for the analysis of mortgage debt on the wage share was not available. One particular challenge was the identification of sources of data on mortgage debt, as the availability of such financial data before the mid-1990s is varied. This issue was overcome by gathering data obtained from central banks, professional mortgage associations, and national statistical offices to establish a complete and comparable dataset between 1979 and 2012 for each case in this quantitative analysis.

The empirical section starts with chapter four, which presents the quantitative findings. The chapter begins with a description of the overall empirical design of the econometric models, as well as the data collected, that are used to assess whether the increased distribution of mortgage credit has a negative effect on the wage share in Britain and Denmark. The chapter contains a descriptive analysis of the data, as well as the eight regression models used to test this hypothesis; two time series cross-section panel data models that examine the pooled data from the three VORC, a random effects model and a fixed effects model, which will then be followed by a time series model of each individual state; Denmark, Sweden, Britain and the USA. Although Denmark and Britain are the only cases examined by this thesis, the USA and Sweden were included as comparative cases to provide a degree of validation in this quantitative analysis. The seventh model will consist of a panel data model examining the liberal VORC countries only, the UK and the USA, while the eighth model will form a pooled analysis of the non-liberal VORC, Sweden and Denmark. The results from the individual and pooled data regression models of the liberal markets of the UK and the USA suggest that the increased distribution of mortgage credit has a negative effect on the wage share of national income, whilst there is no such relationship present in the non-liberal markets of Denmark and Sweden. From a state theory perspective, as the state facilitation of mortgage credit is the main mechanism that governments can use to intervene in the private housing market, the deregulation of mortgage credit may be considered a technique of power that redistributes the share of national income from wages towards capital in liberal capitalism, which is absent in the Danish and Swedish cases. However, an evaluation of the conditions that would establish mortgage credit as a technique of power by the state is beyond the scope of a purely quantitative analysis. Therefore, each case will be explored further in a qualitative assessment in the following chapters.

The fifth chapter is a qualitative case study analysis of the British case, which seeks to provide a retroductive understanding of the conditions that would lead to the increased distribution of mortgage credit having a negative effect on the wage share in Britain since 1979. The data collected to assess the conditions that would make such a relationship plausible was largely collected in the form of unsolicited document analysis from secondary sources, such as the Thatcher archive, as well as interviews with policy makers. This chapter describes how the Thatcher government extensively promoted private housing to establish a mortgage debt-led accumulation regime, which generated vast sums of revenue for the financial sector, and stimulated Britain's flagging economy. Engaging with mortgage credit shifts labour market preferences from demanding wage growth to stable employment, which was used by the Thatcher government to integrate disruptive trade union members into liberal capitalism. The mortgage-led accumulation regime and mode of behaviour regulation was reproduced by the governments that succeeded the Conservatives. New Labour introduced a series of ABW policies that relied on the private home as a vehicle to access private welfare services, which was reproduced by the Coalition government. The reliance on mortgage debt to access private welfare services suggests that Britain may be understood as a type of financialised "debtfare" state. Yet, the reliance on mortgage finance to access private welfare is contingent on the members of the household having paid employment. Therefore, the privatisation of welfare services that are largely only accessible by engaging with mortgage debt has established a workfare-debtfare hybrid state that restricts access to welfare goods based on the individual's employment status and generates vast sums of revenue for the financial sector. The results from the British case suggest that the worker may be considered the direct object of the mortgage policy, which can be linked to disciplinary mechanisms of mortgage finance that act as a mode of behaviour regulation. The overall analysis from chapter five suggests that the presence of a mortgage-led capital accumulation regime that disciplines borrowers to accept lower wage growth in exchange for stable employment would be the condition that explains the negative relationship between an increase in mortgage credit and the reduction of the wage share observed in Britain by the quantitative analysis in chapter four.

The sixth chapter seeks to establish the conditions that are in place that have led to the absence of a meaningful relationship between the distribution of mortgage credit and the wage share observed in the Danish case. In a similar vein to the British case, the qualitative analysis

undertaken in the Danish case relied on data collected from unsolicited documents, as well as interviews with elite policy makers. Mortgage policy is strictly controlled by the government in Denmark, and the interviews with policy makers identified that the changes in mortgage regulation are considered a specific technical mechanism that allows the central government to meet their wider objectives that go beyond the promotion of private housing itself. While the deregulation of mortgage credit has been widely considered a means of boosting consumption in the Danish economy, the interviews with policy makers have shown that mortgage policy has also been used to address the balance of payments deficit, which was considered the main economic challenge facing the Danish economy between the 1960s and the 1980s. This was in response to Denmark pegging its currency to other European countries through the ERM I and II systems, monetary policy was ineffective in resolving the balance of payments deficit. The use of mortgage credit as a technique of economic agency by the Danish government, whilst adhering to the structural constraints of the international system, suggests that there is a direct link between the agents situated in four reflexive vertical cascading structures of governance from the international to the national, as well as economic intuitions and the level of the individual. Overall, this chapter argues that mortgage credit may be deemed a means used by the Danish state to manipulate the interest rates, as well as effect consumption and savings rates, without reducing national output or effecting the balance of payments. Therefore, in contrast to the British case, in Denmark the worker may only be considered an indirect object of regulation, as the main object of mortgage policy is to regulate the functioning of the wider economy.

Using a comparative analysis, the seventh chapter describes how mortgage credit can be integrated into the wider political economy of each case, which may explain the observed differences in the relationship between the distribution of mortgage credit and the wage share between Britain and Denmark identified in chapter four. This chapter examines the key institutional differences between British and Danish mortgage systems, their systems of welfare provision, as well as wage bargaining and industrial relations. The comparative analysis of mortgage credit systems suggests that British mortgages are provided at a higher cost to the borrower than in Denmark, which increases the disciplinary weight of the mortgage payment. Additionally, as pensions are largely underfunded in Britain the private home has become the dominant source of retirement income, which is not the case in Denmark. The additional emphasis on the private home as a retirement asset increases the negative threat of mortgage

default in Britain compared to Denmark. Chapter seven also suggests that Danish workers have greater negotiating power for wages than British workers due to the widespread use of collective bargaining, which may reduce the share of income spent on servicing their debt obligations. The overall results of the comparative analysis in chapter seven demonstrated that the increased cost of mortgage provision in Britain, combined with the reliance on the private home as a financial asset in the British system of asset-based welfare and the antagonistic non-cooperative relationship between workers and employers, may increase the disciplinary weight of mortgage debt in Britain when compared to Denmark, thereby explaining the respective relationship between mortgage debt and the wage share in each case. The comparative chapter will be followed by a concluding section, which will succinctly summarise the overall project, describe the results and suggest the limitations of the project that could be addressed in future research.

## Chapter 1

### The Political Economy of Financialisation and The State

*“This new way of applying the struggle for survival enchanted him ... He often said that to make people work their hardest, and even get a bit of honesty out of them, it was necessary to bring them up against their own needs first.”*

Émile Zola (1995, 36)

This project seeks to examine whether changes in the mortgage credit channel of financialisation has had any effect on the wage share, and whether there have been any policies executed by the state to compel workers via mortgage finance to consent to a falling wage share. Subsequently, this chapter seeks to establish the relevance and significance of such an investigation through a review of key literature on three related research areas: (1) the political economy of financialisation and mortgage credit; (2) the determinants of the wage share of national income; and (3) the role of the state in the financialised economy. The first section reviews the political economy of financialisation, with an emphasis on the actors and power relations surrounding mortgage credit, which also outlines the different theoretical perspectives on the wage share of national income. The evaluation of the different determinants of the relative wage and capital shares has identified the process of financialisation as the predominant cause of the reduction in the wage share in advanced capitalism (e.g. Stockhammer, 2013). The review of the political economy of financialisation highlights the importance of loss aversion, which can be linked to Marxism as workers in advanced capitalism may choose to engage with financial services to mitigate potential losses (Tronti, 1966). As the state has been central in facilitating access to mortgage finance, which forms part of the process of financialisation that has been related to the process of capital accumulation at the expense of wages, a key Marxist power relation, the second and final section of this chapter will outline the key tenets of Marxist theories of the state: state monopoly capitalism (Fine and Harris, 1979), Open Marxism (Burnham, 1994), the *Staatsableitung* (state derivation) approach (Holloway and Picciotto, 1978) and Neo-Gramscianism (Poulantzas, 2014). The section on Marxist state theory will be followed by a

conclusion that summarises the most significant points of this chapter.

### **The Political Economy of Financialisation and Mortgage Credit**

A Hayekian understanding of financialisation rose to prominence after the GFC, and suggested that direct government intervention in the housing market, aimed at stimulating the US economy, was primarily responsible for the expansion in sub-prime mortgage lending that has been considered *the* central cause of the 2008 crisis (Diamond and Rajan, 2009). Hayek (2001, 18-37) argued that it was not possible for laissez-faire economies to reach or remain in a perfect equilibrium state, as capitalist markets could develop private monopolies. However, during periods of economic disequilibria, even the most well-intentioned government should not interfere in the economic activity of the market, as any government interventionist policies could only exacerbate the problems of the economy (Hayek, 2001). Therefore, government intervention in the economy should be limited to the supply-side support for producing and reinforcing competitive markets (Hayek, 2001). From a Hayekian perspective, a financial crisis may be considered a negative externality of the attempts by the government to mitigate the previous financial crisis, which suggests that the GFC was a result of the US Federal Reserve's actions designed to attenuate the potential negative consequences from a wave of financial crises that occurred throughout the 1990s (Diamond and Rajan, 2009). During this time, there were several financial crises in emerging markets, such as the East Asian crisis and the Russian default on domestic debt, which placed several global economies under severe pressure. In order to deal with this sequence of financial crises, several central banks, led by the US Federal Reserve, coordinated to implement a monetary expansion that reduced interest rates to a level below the market-clearing rate and staved off a global recession. Additionally, in the US, the collapse of the internet stock market bubble that occurred at the turn of the century saw the US Federal Reserve implement a further monetary expansion to stimulate the US economy (Diamond and Rajan, 2009, 2). These prolonged periods of monetary expansion at low interest rates released a vast amount of credit into the US financial system, which needed to find a channel into which to direct investments.

During the same time period, financial markets were significantly deregulated in the US after the effective repeal of the Glass-Steagall act in 1999, which dissolved the forced separation

between retail banks and their investment banking arms. Mortgage credit markets were also extensively deregulated by direct action from the US government between 1997 and 2004, in order to meet the political objective of widening access to affordable private owner-occupied housing (Mian et al, 2010). The US government sought to facilitate access to housing to gain political support from low-income constituencies after it was aggressively lobbied for by potential borrowers who wanted to purchase a home, yet were unable to meet the lending requirements to access prime mortgage products (Mian et al, 2010). The deregulation of the financial sector established a series of financial product innovations based on securitisation, which allowed the system of mortgage lending to move away from an “originate and hold” model to an “originate and distribute” model (Bord and Santos, 2012). Mortgage lenders could no longer profit from holding a mortgage at such low interest rates over a long duration, so profits were generated by selling large volumes of mortgages on the secondary market for a nominal fee, which incentivised lenders to relax lending criteria and allowed borrowers previously deemed unacceptable (i.e. sub-prime) credit risks to gain access to mortgage finance and enter the housing market (Diamond and Rajan 2009, 3). The low-interest rate environment created by the loose monetary policy implemented by the Federal Reserve, coupled with the product innovations resulting from the deregulation of the financial sector, established a credit environment that met the government objective of allowing potential voters to meet their demand for private housing. However, while financial market deregulation was implemented by the US government to maintain political support from voters, it was also aggressively lobbied for by financial firms, which sought to increase their revenue through an expansion of their customer base (Mian et al, 2010, 23). Therefore, as private enterprise also demanded the deregulation measures implemented by the state to generate an additional revenue source, government intervention to meet political objectives may not be considered solely responsible for the economic disequilibria that resulted in the GFC.

The Keynesian perspective on economic disequilibria agrees with the Hayekian school in that economies do not necessarily converge to a self-equilibrium point; however, in contrast to the Hayekian perspective, Keynesians suggest that direct government intervention in the economy can mitigate issues that result from the business cycle (Keynes, 1936). One form of economic management is “privatised” Keynesianism, which suggests that the government can encourage private households to engage with financial services, which directs a large pool of

investment towards the financial sector and increases aggregate demand through an increase in residential investment and consumption (Crouch, 2009, 390). Whilst governments in advanced economies have certainly encouraged household engagement with financial services, particularly through the facilitation of mortgage credit to provide access to private housing as a form of ABW, the GFC suggests that the increasing financialisation of the economy is unable to mitigate the issues presented by the business cycle.

Keynes (1936) argues that problems in the business cycle arise due to periods of prolonged economic uncertainty, which have different causes and solutions according to the divergent Keynesian perspectives that can be broken into two distinct camps; the Neo-Keynesians and the Post-Keynesians. Neo-Keynesians argue that problems in the business cycle are a direct consequence of the rigidity of wages and prices that occur in response to a demand shock, which may be mitigated through adjustments in monetary policy (Mankiw, 1985, 529; Millard and O’Grady, 2012, 25). However, while there is significant evidence that suggests that wages and prices in western economies may be considered rigid in light of an economic shock, the financialisation of advanced economies that occurred in part due to the increase in available credit from the loose monetary policy adopted by central banks in the late 1990s and early 2000s did not mitigate the problems of the business cycle, and created a housing asset-price bubble that culminated in the most severe global recession since the Great Depression (Krause and Lubik 2007, 707; Diamond and Rajan, 2009).

Alternatively, the Post-Keynesian perspective argues that there are structural problems in the economy that lead to disequilibria arising from the stratification of income inequalities, which have increased during the era of financialisation (Stockhammer, 2010, 11; 2013). Post-Keynesian scholarship has identified two distinct models of economic growth in advanced economies: export-led growth and debt-led growth (Stockhammer, 2016). Advanced economies that are reliant on debt-led growth have been categorised as “finance-dominated accumulation regimes” that demonstrate mediocre economic growth coupled with “a high degree of fragility” (Stockhammer, 2008, 184). The major cause of the mediocre growth performance in financialised economies is the low wage share of national income relative to capital (Stockhammer 2008). Post-Keynesians suggest that low wage shares are problematic for the economy, as waged incomes have higher marginal propensities to consume than capital incomes and investment; therefore, low wage shares could lead to low aggregate demand (Stockhammer,



2010, 3-11; Stockhammer and Ederer, 2008, 482-483). In highly financialised debt-led growth economies, the negative effects of the low the wage share are mitigated by widening access to household debt, which has boosted aggregate demand through the consumption and investment channels (Stockhammer, 2016). However, the identified instability and fragility of financial markets (e.g. Minsky, 1992) suggests that debt-led growth is unsustainable, which was evidenced by the severely negative consequences of the GFC. Therefore, Post-Keynesian scholars have placed a strong emphasis on establishing the most significant causes of the reduction of the wage share of GDP to mitigate the economic problems caused by financialisation.

The determination of the distribution of national income between labour and capital has been an important area of analysis since the onset of classical political economy. For example, Smith (1776, 139) suggests that the wage share is largely determined by the downward pressure from capital owners, and can only rise in line with an increase in the level of national income, meaning that the wage share of national income should be constant over time. However, in contrast to Smith, Ricardo (1821) suggests that it is the upward pressure from individual wage demands that determines the wage share of national income relative to capital. Alternatively, the marginalist revolution, which forms the basis of modern neoclassical economics, suggests that the price that labour and capital are to be compensated at is directly related to the marginal output generated by each additional factor of production (Menger, 1881; Marshall, 1920). Such an understanding is related to the micro-level of the firm, where the marginal product of one factor of production equates to the change in total output that results from the change in that factor of production, holding all other factors constant. Here there is also a link to the Cobb-Douglas production function, which highlights the marginal rate of substitution between the two different factors of production within a firm (Douglas, 1928).

Returns to waged-labour through productivity gains can also be linked to the relative skill-sets endowed to workers through human capital development in education (Becker, 1962). Individuals with higher levels of human capital development may be considered to add greater marginal value to the production process, which may account for why high-skilled and well educated workers have increased their wage rates, while low-skilled and less-well educated workers have decreased their wage rate (Becker, 1967; Heckman, 2000, 3). However, wage levels are not only determined by levels of human capital development, and may be linked to the relative adaptation to skill-biased technological change, which has also contributed to the

observed increase in income equality between workers (Michaels et al, 2014; Card and Di Nardo, 2002). The widespread diffusion of information communication technology (ICT) in advanced economies since the 1970s has complemented non-routine analytical tasks, which has increased wages for the most highly skilled workers, but has acted as a substitute for routine tasks performed by middle-skilled workers, which has reduced demand for their services as well as their relative wage compensation levels (Michaels et al, 2014). However, non-routine manual tasks that are associated with low skilled employment and lower levels of human capital development, such as cleaning or childcare, have not been negatively affected by the increased prevalence of ICT, as these tasks have not yet been substituted through technological developments (Michaels et al, 2014). The differences in human capital development and the relative adaptation to skill-biased technological change suggest that the functional distribution of income between wages and capital will differ greatly between industrial sectors. However, while there may be great cleavages between sectors, neoclassical economic theory argues that at the aggregate level, the wage share of national income relative to capital should remain relatively consistent over time (Solow, 1958, 628).

While neoclassical economic theory has demonstrated the importance of the returns to investment in human capital development through the adaptation to skill-biased technological change, the post-Keynesian critique of neoclassical theory has demonstrated that the wage share of national income has not remained constant (Stockhammer, 2013). Since the 1970s, the wage share of national income has declined in favour of capital in advanced economies, which forms part of the wider trend of increasing inequality in advanced economies (Stockhammer 2013; Piketty, 2014). Two of the most prominent causes of the observed decline in the wage share of advanced economies have been identified as technological change and globalisation (Stockhammer, 2013). In the early post-World War Two era, technological change had been identified as labour augmenting, which led to the improvement in the wage share of national income. However, it has been argued the developments in technology since the 1970s have become capital augmenting, which has led to a reduction in the wage share (IMF, 2007a; European Commission, 2007). The analysis by Michaels et al. (2014) has shown that technological change cannot be considered purely capital augmenting, as the increased diffusion of ICT capital has increased demand for high-skilled labour, while at the same time reduced demand for middle and low-skilled labour (Stockhammer, 2013, 5). The shifting demand for the

different categories of skilled labour has influenced the compensation rates accordingly, with increased wages for high-skilled workers and reduced wages for low-skilled workers, which has led to a reduction in the overall wage share of national income for workers in advanced economies (Stockhammer, 2013, 5).

Globalisation, defined narrowly as an increase in international trade, “is one of several factors that have acted to reduce the share of income accruing to labor (*sic*) in advanced economies” (IMF, 2007a, 161; Stockhammer, 2013, 6). Classical trade theory, based on the Stolper-Samuelson (1941) theory, suggests that the abundant factor of production will be the predominant recipient of gains from international trade between developed and developing economies, which is capital in advanced economies, and low-skilled labour in developing economies, and may explain the reduction in the wage share observed across the OECD (Stockhammer, 2013, 6). However, the Stolper-Samuelson theory does not accurately account for the observed patterns in international trade, which predominantly occur between economies at a similar stage of development, and international trade has not significantly increased wages in labour abundant developing economies (Goldberg and Pavcnik, 2007). While alternatively, the Political Economy of Trade approach suggests that the increase of international trade from globalisation has negatively affected the bargaining position of labour relative to capital (Rodrik, 1997; Onaran, 2011). The reduction in the bargaining power of workers is largely due to “the structural weakness of organised labour as an agent” in advanced economies, due to the combination of the reduction of unionisation and the structural power of capital (Bengtsson and Ryner, 2015, 19). Overall, the results from a broad range of empirical research of the effects of trade openness (e.g. Jayadev, 2007, and Harrison, 2002) have all demonstrated that increased trade has a negative effect on the wage share of national income across both advanced and developing economies (Stockhammer, 2013).

Whilst both technological change and globalisation have contributed to the observed reduction in the wage share in advanced economies, it is the phenomenon of financialisation that has been identified as the most significant causal factor in this reduction (Stockhammer, 2013, 42). Here financialisation can be understood as the “increased role of financial activity and rising prominence of financial institutions” in a society that is also characterised with “rising indebtedness of households, more volatile exchange rates and asset prices, short-termism of financial institutions, and shareholder value orientation of non-financial businesses”

(Stockhammer, 2013, 7). In this analysis of the effects of financialisation on the wage share, the proxy measure for financialisation is the net foreign assets as a share of national income for each economy, which may also be considered a measure of financial globalisation (Stockhammer, 2013). The growth of net foreign assets as a share of national income is also influenced by the level of financial reforms implemented by the state, as a high level of financial reforms implemented to deregulate financial markets may indicate a strong level of political influence of the financial sector (Stockhammer, 2010; 2013). However, the analysis of financialisation as the net foreign assets within a state fails to account for the effects of specific channels of financial services on the wage share in advanced economies.

This has been addressed through the identification of household debt as a main driver of financialisation, and the decision to take on debt places the borrower in a subordinate position in their relationship with a lender, as the lender sets the terms of access to the loan (Köhler et al, 2015; Lazzarato, 2012). Engaging with financial services establishes an “investor identity” for the borrower, where the negative consequences of defaulting on a debt disciplines workers to service their debt obligations that are a source of revenue for the financial sector (Langley, 2007; Grey, 1997). Therefore, the decision to take on household debt acts as a disciplinary mechanism that increasingly exposes workers to financial vulnerability, which reinforces their dependency on employment and marginalises their bargaining power with their employers (Grey, 1997; Lazzarato, 2012). Based on the disciplinary mechanisms inherent to the “investor identity”, an econometric analysis has demonstrated that an increase in household debt is significantly related to a reduction in the wage share in the advanced OECD economies (Köhler et al, 2015).

Despite the results of the analysis by Köhler et al (2015), not all sources of household debt carry similar financial burdens or have the same degree of negative consequences on defaults, and such a general examination of household debt fails to account for the differentiated underlying causal mechanisms that are endogenous to specific channels of financialisation. Private housing is considered a key node of financialisation and has led to an increase in household engagement with financial services through the sustained demand for mortgage credit to access owner-occupied housing (Aalbers, 2008). However, while housing finance has been identified as a key instrument of financialisation, there has been little examination of how the specific channel of mortgage credit may contribute to the observed reduction in the wage share in advanced economies, as a mechanism that reproduces the conditions for capital accumulation

at the expense of wages.

The post-Keynesian position makes a significant contribution through the identification of certain advanced economies as finance-dominated growth regimes, where financialisation increases aggregate demand through the management of debt, despite falling wage shares that form part of a wider trend of increased inequality, which are also caused by financialisation. Post-Keynesians suggest that income inequality has been rising since the 1970s due to a series of active political policy decisions that have been implemented and seen income redistributed to the wealthiest in society (Stockhammer, 2010, 21). Subsequently, the reduction in the wage share could be addressed by increasing the regulation of the financial sector, which occurred in the aftermath of the Great Depression of the 1930s (Stockhammer, 2010; 2013, 43). However, such a policy prescription places too great an emphasis on the structural power of the financial services sector, and fails to sufficiently account for the full series of actors that have influenced the political economy of financialisation. Additionally, Post-Keynesian scholars fail to account for the political power relations that would seek to limit any attempt to redress the structural economic problems posed by income inequalities.

It is the issue of political power relations that the Neo-Weberian perspective has addressed, through the suggestion that the political power struggle between individuals to attain material gain is the cause of economic disequilibria (Wiley, 1983, 39). For Neo-Weberian scholars, the state has an infrastructural power that allows it to implement policies and “actions across its territories” (Mann, 2008, 355). Infrastructural power is thereby manifested within the institutions of the state, but also permeates throughout different sites of civil society, which accounts for the top-down influence of the state, whilst also acknowledging the importance of bottom-up consent (Mann, 1988; Schroeder, 2006, 4). From a Neo-Weberian perspective, political legitimacy is based on citizen consent to political party rule and is contingent on the successful implementation of government policies that produce, reproduce, and widely distribute socially beneficial outcomes in terms of access to social norms and material gains (Seabrooke, 2002, 29). Therefore, liberal governments may seek to influence the mechanisms of bottom-up consent by providing citizens with access to the social norm and material gains from owner-occupied housing through the widespread facilitation of access to mortgage credit in order to maintain political legitimacy (Schwartz, 2012). The Neo-Weberian scholars have developed a series of typologies that cluster similar housing and mortgage markets together, known as the

Varieties of Residential Capitalism (VORC), which group countries by their rate of owner-occupation, to highlight the level of housing commodification, and mortgage debt to GDP ratio to indicate the degree of financialisation of an economy (Schwartz and Seabrooke, 2008). These typologies have been used as an alternative to other forms of comparative political economy, such as the Varieties of Capitalism (VOC) (Hall and Soskice 2001), or Welfare State Regime (WSR) theory (Esping-Anderson 1990), as means of comparing different forms of housing systems. While both the VOC and WSR typologies are widely used and highly important to political economy, the institutional frameworks within the VOC and emphasis on the role of market de-commodification in the WSR do not explain the level of private homeownership or the range of access to mortgage finance, which are key to explaining the configuration of housing systems (Schwartz and Seabrooke, 2008, 243-255). Although the rate of private owner-occupied housing is not consistent across different countries, private homeownership has been identified as both a social norm and a means of accessing material gains from a financial asset in certain varieties of residential capitalism, specifically the liberal market countries such as Britain and the USA (Schwartz and Seabrooke, 2008). Therefore, Neo-Weberian scholars make a significant contribution here by stressing the importance of bottom-up consent, which suggests that rather than the phenomenon of financialisation occurring purely due to the top-down influence of financial services firms and political power, the rise to prominence of the financial sector is due to the active desire for workers to engage with financial services in their everyday lives to access the goods and services they demand (Froud et al, 2002).

The Neo-Weberian suggestion that owner-occupied housing may be considered a social norm that is independent from the infrastructural power of the government is questionable, as the government can influence the demand for private homeownership. Owner-occupied housing has been identified as a “natural” desire in countries with a high owner-occupation rate, however, the demand for private housing has been promoted to the public by policies designed and implemented by their government (Hamnett, 1999, 53). Therefore, it is not that the desire for homeownership may be considered a “natural” social norm, but rather the demand for private housing has occurred in part due to the “naturalisation” of homeownership that is a direct result of strong promotion by a government (e.g. Gurney, 1999). The facilitation of mortgage credit is the main mechanism in which the central government can intervene in the private housing market, and there was a vast amount of mortgage credit released into the economy in the build-

up to the GFC (Fahey and Norris, 2009, 10). The increase in mortgage credit was made possible by the loose monetary policy adopted by central banks, as well as the deregulation of mortgage finance, both of which were implemented by states seeking to promote owner-occupied housing (Diamond and Rajan, 2009). Yet the expansion of credit in the build-up to the GFC has demonstrated that the phenomenon of financialisation has transformed the home into a highly leveraged asset that is exposed to extreme asset-price volatility (Montgomerie and Büdenbender, 2015).

While the Neo-Weberian understanding of financialisation places an emphasis on the importance of the owner-occupied home as a financial asset, it is still employee compensation in the form of wages that is the pre-dominant source of income and material gain for the majority of households (Froud et al, 2010, 152; Diacon et al, 2009; Montgomerie and Büdenbender, 2015, 6, 16). As demonstrated by Post-Keynesian scholars, engagement with financial services has been identified as having a negative effect on the material gains from wages as a share of national income, and forms a key part of the wider trend of income inequality (Stockhammer, 2013; Köhler et al, 2015). However, it would be difficult for the individual to obey the structural path dependencies in society if one did not believe that the structural path dependencies could produce access to the outcome one desired (Kierkegaard, 1955). Therefore, while Neo-Weberian theory makes an important contribution by placing a strong emphasis on the everyday life of wage earners in establishing bottom-up consent to the political and economic infrastructures the individual finds themselves in, it fails to provide a sufficient account of both the government manipulation of social norms, and why citizens would consent to the structural path dependencies promoted by a political system that has not overseen the widespread distribution of material gains from the housing asset or wages.

Here Foucauldian scholarship makes a contribution through the incorporation of agency into individual interaction with political and economic infrastructures through the use of governmentalities. A Foucauldian governmentality may be described as a technology of power that aims “to shape the beliefs and conduct of others in desired directions by acting upon their will, their circumstances or their environment” (Rose and Miller, 2010, 3). A governmentality proposes a specific potential outcome and has a coherent internal logic that allows the individual to achieve that outcome; therefore, when an individual chooses to adhere to a governmentality, the individual acts in accordance with their own internalised understanding of an ideal-type of

their specific role in a specific relationship, which produces a modification of behaviour based on their desire to access the productive outcome of the governmentality (Foucault, 1979, 81). Many uses of Foucauldian governmentalities in International Political Economy (e.g. Hamann, 2009) are limited to the structurally deterministic understanding of power derived from Discipline and Punish, which examines power from the top-down where the objects of power exist at the direction of the state within the totality of the prison system (Foucault, 1977). However, such an analysis overemphasises the structural power of a governmentality, and marginalises the role of individual agency in liberal democratic states. In open social systems the idea of an entirely top-down system of power is unsustainable, as power must be derived from the bottom-up through individual agency (Foucault, 1979, 95). Additionally, power does not need to come from the state as “power is everywhere; not because it embraces everything but because it comes from everywhere”, and individuals in modern society are subjected to various governmentalities throughout their everyday lives from varying sites of power that exist beyond the state (Foucault, 1979, 93). However, as not all individuals interpret, react or adhere to each governmentality they are subjected to in the same way, there exists the possibility of transcending the governmentality they are subjected to. The ability of individuals not to adhere to every governmentality allows for the space for individual agency, as one can choose to accept a particular governmentality, which produces a particular set of behaviours in the individual in accordance with their understanding of the internal logic of the governmentality.

A Foucauldian understanding of financialisation has described financial services as a disciplinary mechanism that regulates individual behaviour, which has been facilitated by the state as a form of indirect governance over the citizenry (Lazzarato, 2012). Here there is a suggestion that the state facilitates access to financial services, predominantly debt instruments such as mortgages, as a means of instilling a regulatory discipline in citizens to produce a specific form of behaviour that allows the state to meet its own objectives (Lazzarato, 2012). While such an examination makes a significant contribution by demonstrating that the financial sector may be used as a technique of disciplinary power by the state over the polity, the analysis suggests that the engagement with financial services is akin to the prison system analysed by Foucault (1977). Although financial products are regulated by the state and facilitated through central banking operations, the financial sector may not be considered a part of the state apparatus that is directed from the top-down in advanced capitalism. Additionally, such an



analysis fails to account for the bottom-up mechanisms of consent, which must be accounted for in any analysis of advanced financialised capitalist states.

Alternative Foucauldian scholarship has suggested that the rise of the financial services sector has developed from the bottom up, as individuals have actively chosen to accept and adhere to the structural path dependencies inherent in the engagement with financial services to achieve a specific desired outcome (Langley, 2014). In terms of housing finance, the potential homeowner would actively choose to adjust their behaviour to meet the perceived requirements of the lender to access the durable good of housing, as well as the material gains from the housing asset (Langley, 2014, 1). However, the emphasis on the desire to achieve material gains from adhering to the structural path dependencies inherent in financial services disregards the role of loss aversion, which suggests that individuals are more concerned with mitigating the fear of potential losses rather than achieving potential gains and has been identified as an evolutionary trait in humans (Tversky and Kahneman, 1986, S258; Lakshminaryanan et al, 2008). The identification of loss aversion as a significant motivating factor of human behaviour suggests that workers may demand access to financial services to offset material losses from elsewhere, as opposed to demanding gains from investment. Here there is a link to the disciplinary effects of mortgage debt, as the potential loss of access to the home, as part of the negative consequences of mortgage default, establishes a motivation for the borrower to meet their regular mortgage debt obligations, which has been identified as a disciplinary device that encourages borrowers to demand employment (Grey, 1997, 49). However, there has been little examination of how the disciplinary effects of mortgage debt can be incorporated within a wider political and economic structure. Therefore, whilst the Foucauldian perspective provides a suitable framework to explain how individual agency can be placed within political and economic structures containing specific path dependencies, there is insufficient explanation as to the motivations behind the state implementation and bottom-up adherence to such governmentalities.

The Marxist perspective offers a more promising entry-point here through the identification of the power struggle over the surplus of production between social classes as the main cause of economic disequilibria in capitalism, which places the working class in a position to minimise losses (Clarke, 1990, 465). In a similar vein to the antagonistic worker-master relationship identified by Smith (1976), for Marx (1990) workers and the capitalist owners of the means of

production are in competition for the profits from the production and sale of a good, where the capitalist seeks to minimise the share of profits workers receive in order to maximise their own share. However, the key contribution from Marx (1990) is the identification of the effects of the wider political and economic infrastructure of capitalism that reinforces this relationship in favour of the capitalist, and places downward pressure on the returns to labour for the workers. In a more specific and recent analysis of advanced capitalism, Lapavitsas (2009, 133; 2011) has demonstrated that the modern financialised economy is structured in part as a power relation, where a portion of the subordinate worker's income is expropriated by dominant financial firms, which is manifested in the form of corporate profits. Lapavitsas (2009, 145) also places a strong emphasis on the promotion and facilitation of the financial sector by the state to meet the needs of financial capital.

The identification of the relationship between workers and financial firms as a disproportionate power relation, mediated in favour of the financial firms by the state, is a significant insight, and forms the point of departure for this project. Nevertheless, the analysis by Lapavitsas (2009) is limited by an emphasis on a top-down approach, which implies a structure of coercion and false consciousness that does not capture the legal and political form of liberal democratic states, and their reliance on active bottom-up consent (Burawoy, 2012, 188; Bourdieu, 2000, 202-205). The application of a false consciousness in such an analysis implausibly assumes that workers within a state are guilty of a widespread mis-recognition of their own interests, and the formulation of a hegemonic constellation requires that the interests of the dominant group be structured so as to resonate with the preferences of the subordinate groups in order to generate bottom-up consent (Hall, 1988, 44; Sassoon, 2001).

In capitalism, bottom-up consent is achieved through citizen exposure to the commodification function that places the individual up against their needs (Tronti, 1966). The political, legal and economic infrastructure of capitalism establishes a system where the individual is only able to access subsistence goods in exchange for money, which is only obtained by the working class through income from employment. The very threat of the loss of subsistence, established by the commodification function in capitalism, provides the individual without capital income with the internal logic to actively demand employment to generate an income to access the goods and services necessary for survival (Tronti, 1966). It is the very need to obtain an income to access the goods and services necessary for survival that generates

consent from the loss averse individual to adhere to the rules of the wider economic and political infrastructure in which the worker finds themselves (Marx, 1990, pp. 896-904). Therefore, the key hypothesis of this project is informed by the postulate, based on loss aversion, that the commodification function establishes a fear of physical insecurity, which creates active working class demand for employment to mitigate such physical insecurity (Tronti, 1966). While loss aversion is the very mechanism that establishes bottom-up worker consent to the political and economic infra-structures within capitalism, there is scant examination of how loss aversion may influence workers in advanced capitalism to actively choose to engage with the mortgage credit channel of financialisation. Additionally, there has not been a sufficient analysis as to why the state would facilitate access to mortgage credit that increases the financial vulnerability of workers by exposing them to the severely negative consequences of mortgage default, which may reinforce bottom-up demand for stable employment to mitigate such vulnerability (Grey, 1997, 49).

### **Marxist State Theory**

For Marxists, the infrastructural nexus of power relations between the economic and the political is crystallised in the institutions of the state, which reinforces this relationship in favour of capitalists, by placing downward pressure on the returns to labour for the working class, which secures the conditions for profitable capital accumulation. Here there is a link to the functional distribution of national income between wages and capital, which provides a justification for the use of Marxist state theory in this analysis. The origins of Marxist state theory can be traced to the development of state ideology in Leninist-Marxism, which argues that state-led imperialism is a necessary development within the capitalist economic system (Burnham, 1994, 224; Lenin, 2010). For Lenin (2010), the competitive nature of markets in capitalism leads to the development of domestic national monopolies, which is a rare point of agreement between Lenin and Hayek (2001). Lenin (2010) argued that domestic markets for national monopolies would eventually meet their limits, which established a need to expand into new markets to discover alternative investment opportunities for capital, in order to suspend a crisis of over-accumulation. These new opportunities were identified within foreign countries, leading to the widespread development of state-led imperialism, which refers to the attempt of one state to remotely control

another with the aim of governing flows of materials, people and capital (Lenin, 2010; Lester, 2009, 175). The power of the state may be considered a factor of political class domination that has used military force to produce economic gain for a dominant domestic capitalist class. While Leninist-Marxism highlights the importance of the financial sector to capitalism, as well as the notion that state actions can be implemented to benefit the dominant capitalist class, which suggests that the delineation between markets and states is not altogether distinct, the Leninist-Marxist state is reduced to a repressive political instrument of class domination that overstates the independence of the financial system, and marginalises the domestic economic role of the state (Jessop, 1982, 34). Additionally, Leninist state theory may also be considered an overly deterministic interpretation of Marxism where the economic base dictates the political superstructure, which marginalises the agency of a variety of political actors and ignores the political institutions and structures of democratic capitalist states (Burnham, 1994, 225).

State monopoly capitalism advances the Leninist-Marxism position by suggesting that mutation of social relations inherent in the capitalist system of production will lead to distinct stages of capitalism instead of continuous trends in a singular form of capitalism (Fine and Harris, 1979). The theoretical tenets of state monopoly capitalism suggest that as capitalism advances with an increasing concentration of monopolies, the capitalist class obtains an increased concentration of surplus value from the system of production (Fine and Harris, 1979). Therefore, state intervention in the economy becomes more prevalent to mitigate the increasingly volatile and destructive crises of over-accumulation in capitalism that occurs due to the concentration of surplus value in the hands of the capitalist class (Fine and Harris, 1979). The state may attempt to mediate the crises of over-accumulation through the creation and use of credit in counter-cyclical interventions, such as traditional Keynesian demand management or Neo-Keynesian monetary stimulus, which also sees the redistribution of worker income through taxation to the capitalist class in the form of subsidies (Jessop, 1982, 55). While state monopoly capitalism allows for the successful identification of the increasing influence of capital over the state, which can be used to further political and economic power in the capitalist system, the analysis places a strong emphasis on the determinism of economic relations, which establishes an instrumentalist vision of the state that exists to merely reproduce the conditions for capital accumulation, and marginalises the agency of the working class in the modern political system (Fine and Harris, 1979; Jessop, 1982, 70, 76). Additionally, the demarcation of specific stages of

capitalist evolution fails to account for the sustained reproduction of economic processes and actors between stages of capitalist development (Jessop 1982, 70).

Alternatively, “Open” Marxism views the nation state as the domestic “political form” of the international class struggle for the profits of production between the working class and the capitalist class (Tsolakis, 2010, 390; Burnham, 2001, 104). Open Marxist state theory places primacy on the class struggle that is a result of the contradictory relationship between labour and capital, which allows for a strict rejection of both the political determinism found in Leninist-Marxism, as well as the economic determinism of state monopoly capitalism (Burnham, 1994, 224-225). The over-determined antagonist social relations between labour and capital in the system of production may manifest themselves in different social, political and economic forms, which places primacy on the social relations of production as the determinants of the wider political and economic structure, and denies the structural determinism of the economic base over the political superstructure (Burnham, 1994, 226). In Open Marxism, the class struggle may not be delineated into historical sections, and may not be seen as a separate entity to the state, the market or money, but rather, these categories indicate the sites of power relations and class struggle. Therefore, the state may be considered to comprise of a series of institutions that reproduces the subjugation of the working class to the dominant capitalist class, and the relationship between non-elite individuals and the state may be understood as a form of top-down coercion (Clarke, 1991, 227; Tsolakis, 2010, 390; Burnham, 1994, 221-225).

While Open Marxism makes a significant contribution by placing primacy on the antagonistic social relations within the system of production, there are three main issues with the Open Marxist account of the state: the first is that there is a central contradiction within Open Marxist theory, as there is a strong criticism of the structuralism of social relations due to the global expansion of capital as proposed by Leninist-Marxism, whilst at the same time advocating their own structuralist views of the state that reproduces capitalist dominance over the working class (Tsolakis, 2010, 391-394). The second issue is that, according to Open Marxism, the state is conceptualised as a unitary actor, independent from internal contradictions and class struggles (Tsolakis, 2010, 394). However, states consist of differentiated internal social forces that struggle both within the institutional structure and against it (Jessop, 1982, 221); therefore, the state cannot be understood as wholly independent from the broader social struggles that exist within it, as states are simultaneously shaped by the struggles within them, which in turn, shape the state

(Tsolakis, 2010, 395). The reflexive relationship between the state and the social struggles within the state is of importance to this project, as it seeks to examine how the state has influenced the financialisation of advanced economies, which has, in-turn, shaped the institutions of the state. The third issue lies with the conception of the state as an organised system of top-down coercion, as the depiction of the state as an authoritarian regime is unrecognisable from democratic advanced financialised capitalist states, and would be unsustainable in any modern democracy (Tsolakis, 2010, 395). Additionally, Open Marxism ignores the important role of bottom-up consent to political rule, which is key to the political, economic and social reproduction of advanced economies. While Open Marxism highlights the importance of the social relations inherent in the system of production, it is not the only form of Marxist state theory to do so, and the internal theoretical contradictions of Open Marxism mean that this theory will not be used further.

The *Staatsableitung* (state derivation) approach suggests that the capitalist state cannot be reduced to either a purely political or economic structure, as the state must focus on the constant restructuring of the ideological, political and economic spheres to reproduce capital accumulation as a disparate social relation in favour of the dominant capitalist class (Holloway and Picciotto, 1978). Additionally, the *Staatsableitung* approach identifies specific sites of historical class struggles, which allows for the identification of how such class struggles can be mediated in the political sphere (Holloway and Picciotto, 1978). Although the capitalist state plays a significant role in reproducing the conditions for capital accumulation at the expense of the working class, the state also intervenes against certain capitals, as a political complement to the economic sphere of competitive markets (Jessop, 1982, 141). Therefore, in the *Staatsableitung* approach, the capitalist state cannot be identified as a purely top-down system of coercion for the end goal of capital accumulation, or working class subjugation to the dominant capitalist class, as identified by Open Marxism, as the state must play a mediation function between different class factions. Additionally, the fluid integration of the economic and political spheres that influence social relations in the *Staatsableitung* approach makes a significant advance over Leninist-Marxism in that the state cannot be understood as a purely political instrument implemented and controlled by the dominant capitalist class (Jessop, 1982, 141). By the same reasoning, the emphasis by the *Staatsableitung* approach on how the state can limit capital accumulation for certain capitals also necessitates the rejection of the economic

determinism found in state monopoly capitalism. Whilst the identification of specific historical sites of class struggle makes a significant contribution through the description of a state that must mediate between different class factions, which limit the ability of the state to purely reproduce the conditions for capital accumulation, the specific delineation of historical class struggles between the working class and the capitalist class in the *Staatsableitung* approach may be considered excessively narrow (Jessop, 1982, 142). This strict class delineation in the *Staatsableitung* approach also fails to account for class factions that exist with a social formation, yet are external to the capitalist system of production, as well as non-class social relations that exist beyond the economic system and their subsequent influence over the political process (Jessop, 1982, 142). Here there is a link to the broader criticisms of Marxist state theory, as the reduction of all social actors to their position in the capitalist system of production fails to account for the influence of a wide range of both economic and non-economic actors on the actions undertaken by the state (Mann, 1988)

Neo-Gramscian state theory makes a significant contribution here as it accounts for the power relations inherent in the system of production, as well as the class and non-class social factions that exist beyond the realm of the economic (Poulantzas, 1973). Neo-Gramscianism identifies an institutional distinction between the public sphere of the political, which mediates social relations through the political system, and the private sphere, which is the site of capitalist economic power relations (Jessop, 1982, 160). Neo-Gramscian theory is based on the original work of Gramsci (1971), who identified two specific forms of class domination that can be implemented by the state: *force*, which refers to the use of coercive mechanisms to enforce compliance with the needs of the capitalist economic system, and *hegemony*, which involves the bottom-up consent of marginalised social groups to the rule of a dominant social class (Jessop, 1982, 148). Hegemony cannot be achieved through the implementation of a false consciousness, as it requires the dominant group to account for the interests of subordinate groups, which allows for the identification of areas of compromise on secondary issues and organises bottom-up support for the primary interests of the dominant group (Sassoon, 2001). Hegemony is formed and mediated throughout a series of state and non-state organisations throughout the social formation, such as the media and religious institutions, that can align dominant and subordinate interests into forming a hegemonic power bloc (Gramsci, 1971).

The capitalist state may be considered a series of institutions that reflect the divisions

within the wider social formation, and the power of the state corresponds to the constellation of interests within the dominant hegemonic power bloc (Poulantzas, 2014). Therefore, through the mediation of contradictions between social factions into a functioning social formation, the state reproduces the political conditions that maintain the dominant capitalist system of production (Jessop 1982, 160). The dominant power bloc in control of the state may also use the sites of hegemony, as well as the coercive apparatus of the state, to reproduce capitalist class power in terms of both the public and private spheres of the political and economic respectively. While the identification of the state as a mediating social relation between different social formations that establishes the political conditions for the reproduction of capitalist power relations is a significant contribution, the emphasis on political determinism marginalises the role of the economic sphere (Jessop 1982, 210). More concretely, the Neo-Gramscian position fails to account for the structural constraints placed on the institutions of the state by the power relations inherent in the capitalist system of production, which constrains the agency of actors in control of the state (Jessop, 1982, 182).

The issue of structural determinism may be overcome in Neo-Gramscianism through the incorporation of regulation theory which plays an important role in subject formation, yet also accounts for the socially embedded nature of economic activity that simultaneously regulates and is regulated by social and political factions (Aglietta, 1979; Jessop, 1997). The Fordist era has been identified as a state-driven capital accumulation regime based on the US industrial production complex, which used the traditional Keynesian welfare state as a means of social regulation (Jessop, 1993; van der Pijl, 1985; Esping-Andersen, 1985). Alternatively, the era of post-Fordism, ushered in after the Volcker shock of 1979, has been linked to a shift in the provision of welfare to that of a Schumpeterian workfare regime, which emphasises the importance of market-based innovation and supply side interventionist policies, as well as the orientation of social policy towards structural competitiveness and labour market flexibility (Jessop, 1993). The Schumpeterian workfare state has subsequently placed a greater emphasis on the responsibility of the individual for their employment, human capital development, and welfare provision, predominantly through privately-funded means (Jessop, 1993). Although the Schumpeterian workfare regime theory has been used to examine both cases analysed by this project, Britain (Jessop, 2003) and Denmark (Torfing, 1999), there has been an insufficient explanation of how the Schumpeterian workfare state can be fully embedded within a post-



Fordist financialised accumulation regime based on the widespread diffusion of household debt.

Here there is a link to the identification of financialised economies with high levels of private debt as debt-fare states, which form part of an accumulation regime that uses private debt as a substitute for “austerity” cuts in state welfare provision, generating large profits for financial firms (Soederberg, 2014). However, the analysis of debt-fare has been largely focused on more recent post-GFC government austerity policies, rather than long-term shifts in welfare provision. The analysis of debt-fare could be related to the understanding of the private home as a financial asset in liberal states, such as Britain, which is reinforced by systems of ABW that can drive demand for mortgage debt to access the material gains from private owner-occupied housing. For example, in countries that have Schumpeterian workfare states that place a strong emphasis on individual responsibility for welfare provision, the financial gains from homeownership may act as a means to access welfare goods, which may increase demand for private housing and mortgage debt. However, there has been little examination of the shift to ABW as a debt-fare accumulation regime in advanced financialised capitalism, and the analysis of debt-fare states, much like the wider literature on financialisation, is largely concentrated on the highly similar liberal market cases of Britain and the USA (e.g. Roberts and Soederberg, 2014), which makes them difficult to use in a comparative political economy analysis. Whilst regime theory has been widely used in critical analysis, there have been substantial criticisms based on the one-sided emphasis on regulation as an ongoing process, which stresses the top-down power of the state and marginalises individual agency (Friedman, 2000, 62). There have been attempts to introduce agency into the analysis of regime theory, however, these have been exposed to further criticism by placing an over-emphasis on technical and unanalysed forces, such as globalisation, which do not allow for a sufficient analysis of individual action (Friedman, 2000, 62-63).

This section has examined four key Marxist theories of the state; state monopoly capitalism (Fine and Harris, 1979), Open Marxism (Burnham, 2001), the *Staatsableitung* approach (Holloway and Picciotto, 1978) and Neo-Gramscianism (Poulantzas, 2014), each of which make their own noteworthy contributions to Marxist literature on the state. However, each of these Marxist state theories also has significant limitations, which may exclude them from being used as a complete form of state theory on their own. Jessop’s (2008; 2016) Strategic Relational Approach (SRA) has successfully amalgamated the theories of state monopoly capitalism (Fine and Harris, 1979), the *Staatsableitung* approach (Holloway and Picciotto, 1978)

and Neo-Gramscianism (Poulantzas, 2014), which mitigates several of these issues whilst keeping their relative strengths. Therefore, the SRA will be used by this project and will be described in detail in the theoretical framework, and second chapter, of this project.

## **Conclusion**

This chapter has sought to provide an analysis of relevant literature that justifies the theoretical framework of this project outlined in chapter two, which is foundationally based on the SRA (Jessop, 2008; 2016). The analysis of the political economy of financialisation and mortgage credit in this chapter has demonstrated that there has been significant government intervention in the financialisation of advanced economies. Hayekian literature states that these interventions can be linked to the desire to achieve political objectives, whilst the Keynesian position argues that they are motivated by the desire to drive the economy towards an equilibrium state. Here the post-Keynesian analysis suggests that the declining wage share of national income, observed in advanced economies since the 1970s, forms part of a larger trend of income inequality in advanced capitalism, which can be addressed to increase economic growth. Neo-classical economics has placed an emphasis on the increase in international trade from globalisation and relative adaptation to skill-biased technological change as the main causes of the reduction in the wage share. While these factors do have a negative effect on the wage share, the Post-Keynesian scholars have identified that it is the phenomenon of financialisation that is primarily responsible for the observed reduction in the wage share in advanced economies since the 1970s.

The active bottom-up choice of workers to engage with financial services, primarily in the form of taking on household debt, has been identified as the key driver of the financialisation of advanced economies. From a Foucauldian perspective, taking on household debt establishes “investor identities” for borrowers and disciplines them to mitigate the negative consequences of debt default, which marginalises their wage bargaining power and has been identified as a significant cause of the reduction of the wage share in advanced economies. While the identification of household debt as a main driver in the reduction of the wage share is a significant contribution, the disciplinary effects household debt cannot be considered at the aggregate level, as different sources of debt do not have the same severity of negative consequences of default or carry the same financial burden. Here there is a link to the mortgage

credit channel of financialisation, as it has the most severe negative consequences of default and is often the largest single source of household debt. However, there has not been a dedicated analysis of the effects of the distribution of mortgage credit on the wage share in financialised economies. Additionally, the Post-Keynesian understanding of financialisation is incomplete, as it concentrates on a top-down approach based on the political power of financial firms to encourage widespread financial deregulation measures.

The link to the political realm of financialisation is made by Neo-Weberian scholars, who suggest that governments facilitate access to financial services to widen access to social norms, such as private owner-occupied housing and material gains, to promote bottom-up consent to political party rule. However, the Neo-Weberian position fails to account for the government's ability to transform social norms, and the emphasis on material gains fails to account for the human desire to minimise losses. Marxism makes a significant entry point here, through the suggestion that exposure to the commodification function places workers against their need for survival, which encourages workers to engage with the structural path dependencies in capitalism as a means to mitigate their physical insecurity; yet there has been an insufficient analysis of this Marxist appropriation of loss aversion in the financialised economy. Here there may be a link to the Foucauldian understanding of “investor identities” when taking on household debt, as borrowers seek to avoid the negative consequences of default. However, there has been no examination as to whether the state promotes engagement with financial services, by facilitating access to household debt, to increase the financial vulnerability of workers, thereby increasing their physical insecurity. Additionally, the state has sought to facilitate worker access to financial services, through the encouragement of private homeownership and private pension funds, which redirects large pools of capital towards the financial sector, reproducing a key Marxist power relation.

Marxism may be understood as the quintessential form of state theory to use in any analysis of the competition for resources between labour and capital, such as the functional distribution of national income. Therefore, this chapter has analysed the four key Marxist theories of the state; state monopoly capitalism (Fine and Harris, 1979), Open Marxism (Burnham, 2001), the *Staatsableitung* approach (Holloway and Picciotto, 1978) and Neo-Gramscianism (Poulantzas, 2014). While each of these different forms of Marxist state theory has its own merits and drawbacks, none of the approaches may be considered a holistic and

comprehensive approach (Jessop 1982). A potential solution to this issue is to use the SRA, which amalgamates different aspects of these approaches to form a comprehensive form of Marxist analysis of the state, which may also be integrated with the use of Foucauldian technologies of power, and will be outlined further in the subsequent chapter of this project (Jessop 2008, 2016).

## Chapter 2

### Theorising the Financialised State

*“The foundations of every doctrine are always stated in a theory, and the so-called learned men merely invent further deductions from the foundations once stated”*

Lev Nikolayevich Tolstoy (2010, 10)

As discussed in the previous chapter, this project will use Jessop’s (1982; 2008; 2016) “strategic relational approach” (SRA) to Marxist state theory to examine the functional distribution of national income between wages and capital in the financialised economies of Britain and Denmark between 1979 and 2012. One of the main contributions of the earlier formulation of the SRA has been to successfully amalgamate the three most prominent post-war European Marxist theories of the state (Jessop, 1982); state monopoly capitalism (Fine and Harris, 1979, 112–145), the *Staatsableitung* approach (Holloway and Picciotto, 1978, 3-15) and Neo-Gramscianism (Poulantzas, 2014). The formulation of the SRA has been well articulated and re-developed to become a significant tool in the analysis of the state in international political economy (e.g. Hay, 1995; Heigl, 2011; Mulvad, 2015). Due to the variations in social, economic and political norms and institutional configurations of different countries, it is unlikely that there is a single theory of the state that is generalisable to all states, but the use of the SRA allows for a conceptual framework to be developed, applied and adapted to fit different states through the identification of sites of strategically selective action from different actors within the state (Jessop, 1982, 2008). The key motivation for use of the SRA as the foundation of the theoretical framework of this thesis is that it allows for the Marxist explanation of the struggle for the profits of production to be used to understand the motivations behind the policies put forward by a hegemonic vision when in control of the state institutions in financialised capitalism. Whilst, simultaneously the SRA can incorporate the Foucauldian understanding of governmentalities as incentives and disciplinary mechanisms, which may be used to explain the “polymorphous techniques of power” used to meet the Marxist objective of capital accumulation (Jessop 2007, 40; Foucault 1979, 11). Therefore, this project will use the SRA as a means of examining whether mortgage

credit has been used as a technique of power to redistribute national income away from waged income towards capital.

The first section of this chapter will outline the key tenets of the SRA, and examine key concepts that highlight the relevance of the SRA in the analysis of power relations within a state. One of main contributions of the SRA has been to develop a robust analysis of the structure and agency debate, which will also be examined in this section (Hay, 2002, 128; Jessop, 2016, 54). The structure and agency debate is of key relevance to this project, as it seeks to examine individual agency in relation to the structural path dependencies inherent in the worker engagement within financial services, which has been encouraged by the state (Froud et al, 2002; Langley, 2014). The next section of this chapter will outline six key dimensions of the state according to the SRA, which are linked to the different modes of representation, articulation and intervention in the state, as well as the social basis of the state, the state as state project, and the relevance of hegemonic visions (Jessop, 2016, 58). These six dimensions of the state can be influenced by the various economic, political and ideological powers and interests within a state, which will be related to an analysis of Foucauldian governmentalities that can also be incorporated into the SRA (Jessop, 2007, 2008). The final section of this chapter will assess the dominant set of comparative political economy typologies that would allow for an assessment of different housing systems, and the variety of power relations surrounding the owner-occupied housing nexus in the states this project seeks to examine; Denmark and the United Kingdom (UK).

### **The Basis of the Strategic Relational Approach**

As described in chapter two, the three key post-war variations of Marxist state theory place primacy on the influence of power in either the economic realm (State-Monopoly Capitalism), the political realm (*Staatsableitung*), or the ideological realm (Neo-Gramscianism) over the state. One of the key contributions of the SRA has been to integrate these three overdetermined areas, which allows for a relational analysis between these different sites of power and their interaction within the state system. The SRA is based on theoretical underpinnings of work by both Marx (1990) and Gramsci (1971), and seeks to shift the main focal point of analysis away from attempting to understand the essence of the state to an analysis of the effects of state power

(Jessop, 2016, 46). The state itself may be understood as a specific ensemble of institutions that have a widely accepted social function to delimit, implement, and uphold policy decisions that are related to a population in a given territory and their common interest (Jessop, 2008, 9). Therefore, while the state may be understood to have a material presence as an institutional ensemble, or as a subject that acts as a site of delineated political capabilities, an analysis of state power goes further through the conceptualisation of the state as a social relation, which was importantly identified and outlined by Poulantzas (2014) (Jessop, 2016).

As a social relation, the state may be considered “a relationship of forces, or more precisely the material condensation of such a relationship among classes and class fractions, such as this is expressed with the State in a necessarily specific form” (Poulantzas, 2014, 128-9). The identification of the state as a social relation allows for the class character of the state to be accounted for, as well as the interests of a wide range of other social actors, and the state contains within it a series of inherent biases that place primacy on the interests of specific political, social and/or economic agents over others (Jessop, 2016). However, the extent that these biases manifest themselves is dependent on the fluctuating balance of relations between particular social factions, as well as their chosen strategies of action (Jessop, 2016, 54). Conceptualising the state as a social relation means that the contradictions and conflicts of wider society that exist beyond the state are reproduced within the state, and are reflected in the specific modes of operation and organisation of different societal factions (Poulantzas, 2014; Jessop, 2016, 54). The notion of the state as a social relation implied by Gramsci (1971) has been advanced by Poulantzas (2014) and then Jessop (1982, 2008, 2016) through the development of the SRA, which can be used as a theoretical and methodological means of examining the different configurations, mechanisms and influence of the state.

Additionally, the SRA allows the focus of analysis to move beyond the institutional ensemble of the state apparatus, and establish a space to examine state power as a conditional result of the changing balance of social forces within a territory, which desire to advance their own specific interests through the institutional configurations of the state (Jessop, 2016, 54). Those in control of the state can seek to mediate the fluctuating nature of the balance of social forces through the use of governmental technologies of power, which is itself influenced by the structural configuration of the institutional state apparatus as it is embedded in the wider political system, environment and social relations (Foucault, 1979; Jessop, 2008; 2016). Therefore, the

use of the SRA allows for the state to be analysed in terms of the exercise of state power, as an institutionally and discursively mediated condensation of the changing balance of social forces that seek to influence the forms and objectives of the polity, politics and policy in specific conjunctures delineated by specific opportunities and constraints, which can be linked to a wider set of natural and social constraints related to the structure and agency debate (Jessop, 2016, 53; 2005).

### **Structure and Agency, and the SRA**

One of the key contributions of the SRA has been to successfully situate the structure and agency debate in relation to the state, which is one of the most prominent arenas of contention in political analysis (Hay, 2002, 93). Structure refers to the contextual setting in which economic, political and social events occur and have meaning that are out of the direct control of actors, as well as the ordered nature of individual behaviour and relations, in which there is a consistent structure over time (Hay, 2002, 94-95). On the other hand, agency may be understood as the capacity for conscious and deliberate action or conduct by actors in the economic, political and social realms (Hay, 2002, 94). In terms of political analysis, structure and agency have been identified as two distinct concepts: Structuralism argues that political outcomes can be explained purely in terms of structural constraints or contextual determining factors, which marginalises the role of actors in the political process and considers them mere functionalist relays (Hay 2002, 102-108). There are two key issues with the structuralist position; firstly, it suggests a fatalist and passive account of political action, and presents a pre-determined view of agent action (Hay, 2002, 108). Secondly, and more significantly, there is a contradiction within the structuralist position in that if such a position was valid, it would not be possible for individuals to identify or express the structured existence in which they find themselves (Hay, 2002, 109). Often placed in opposition to structuralism, intentionalism suggests that political actors are able to realise their own intentions, regardless of the political structures in which the actors find themselves (Hay, 2002, 109-110). Such a view of intentionalism has two significant issues, in that without some description of context it is not possible to account for the differentiated ability of different actors to influence the political process, and that all political outcomes are entirely contingent on the actions of other direct and willing participants. The combination of these issues suggests that intentionalism is not fully applicable in conceptualising critical political analysis.



Placing these different concepts within the structure and agency debate in opposition to one another limits the role of political analysis, as it marginalises the explanatory capacity of the discipline. Structuration theory attempts to bridge the divide between the two concepts of structure and agency, as they have been identified by Giddens (1984) as “internally related or ontologically intertwined” (Hay, 2002, 118). Structuration theory approaches the debate using a dialectical turn, by noting the entrenched dualism of the oppositional terms of structure and agency to highlight the issues of each theoretical perspective, then subsequently transcending the dualism by developing a “third way” approach (Giddens, 1984; Hay, 2002, 118). The aim of this “third way” in the structure and agency debate is to reconcile the conditional structures of the social and political arena, with the agency of actors by identifying them as two separate concepts that are mutually dependent and constitutive, which can be combined to form a single duality (Hay 2002, 118). Despite the emphasis on transcending the dualism of structure and agency, structuration theory focuses on the duality of structure, as opposed to the analytical distinction between the duality of structure and agency (Hay, 2002, 119). The duality of structure can be understood in a way that “social structures are both constituted by human agency, and yet at the same time are the very medium of its constitution” (Giddens, 1976, 121). Therefore, whilst structure and agency are part of the same duality, they have to be analysed as separate entities, which is made possible through a “methodological bracketing”, where in an analysis of agency, the analysis of the structure must be suspended, and vice versa (Hay, 2002, 120). However, this methodological bracketing has been criticised for containing an inherent paradox, in that it establishes an artificial separation between the two concepts of structure and agency, which is contrary to the objective of structuration theory (Hay, 2002, 121). Additionally, the definitions used to outline the concepts of structure and agency in structuration theory have been reformulated in such a manner to where there is very little to distinguish between the concepts, leaving a very small analytical gap to bridge, and thus reducing the relevance of structuration theory to political analysis (Hay, 2002, 121). Therefore, these two key issues suggest that structuration theory may actually add to, rather than solve, the structure and agency problem (Hay, 2002, 121).

It is at this point of entry that the SRA has made such a significant contribution to the debate through the development of a means to allow critical political analysis to “transcend the artificial dualism of structure and agency” (Hay, 2002, 127). In the SRA, systems of structure

and agency can be seen as overdetermined complements, with structure related to individual action, and individual action related to the wider contextual structure (Hay, 2002; 2001). The identification of the intertwined relationship between structure and agency in the SRA allows structures to be considered as strategically selective in form, as any given structure may privilege some actors, strategies, identities, temporal and spatial horizons, and actions over others (Jessop, 2005, 48). Similarly, the theoretical development of structurally constrained actions within the SRA allows for individual and collective actors to account for the structural privileging through the use of a “strategic-context” analysis when undertaking a course of action (Jessop, 2005, 48). It is important to note that actors are not in a constant state of self-reflexive decision-making regarding their strategically selective choices or motives for action, but rather the SRA develops a space for the plausibility of strategic individual reflection to potentially happen (Jessop, 2005). Additionally, the SRA highlights the key role of social action and the ability of individual and collective actors to reproduce and transform social structures, as well as their emergent properties (Jessop, 2005, 48). The development of the overdetermined relationship between structure and agency within the SRA allows for structures to be examined in terms of their “structurally-inscribed strategic selectivities”; and actions can be examined in terms of their “structurally-orientated strategic” calculations (Jessop, 2005, 48; 2008). These strategic sites can be linked to the inherent structural biases that place primacy on certain actors over others, which, in-turn, influence the decisions actors make based on the structures they find themselves in. In this analysis of Britain and Denmark, individual citizens will be considered structurally situated agents, where they have agency and choice over their actions in relation to the political, economic and social structures of the particular national variant of financialised capitalism that they inhabit. The means of how the causal mechanisms and contextual analysis of the state is articulated using the SRA in terms of the overdetermined relationship between structure and agency will be explained in greater detail using the six dimension of the state outlined in the following section.

### **Six Dimensions of the State**

Using the state as a social relation as a starting point, the SRA can be developed further through an analysis of six key dimensions of the state; (1) the modes of political representation; (2) the

modes of articulation; (3) modes of intervention; (4) the social basis of the state; (5) state projects; and (6) hegemonic visions. The first three dimensions of the state may be linked to the specific forms taken by the institutional configurations of a state, whilst the last three dimensions “give content and strategic meaning” to the formal structure of the state (Jessop, 2016, 60). Therefore, these six dimensions of the state will be used to establish a means of comparison between the forms and substantive manifestations of the British and Danish capitalist states. Although the empirical case studies in this analysis will not necessarily explicitly and repeatedly refer to each of the six dimensions of the state as described here, these dimensions have been included to ensure that the state is not considered an ambiguous “black-box”. Accounting for these dimensions of the state in this manner allows for different actors within the state to be represented and their influence accounted for, which may, in-turn, determine the nature of the state.

There are five prominent ideal-types that act as modes of political representation that have been identified in state systems; clientelism, corporatism, pluralism, *raison d'état* and parliamentarism (Jessop, 2016, 62). Whilst each form of political representation is important, only *raison d'état*, corporatism and parliamentarism will be analysed here, as Britain has a political system based on parliamentarism, Denmark has been widely identified as a corporatist state (e.g. Jessop, 1979), and for the significant contribution of Foucault (1979, 89), who identifies that the motivation of state action must go beyond the *raison d'état*. *Raison d'état* may be considered a form of direct action by the state that excludes the forms of political representation to achieve a distinct objective for the state (Jessop, 2016, 64). Such objectives are more characteristics of nations under direction of a sovereign monarchy or an authoritarian regime, which is unrecognisable in democratic nations that use a parliamentary system. However, there are exceptions to such a rule, especially when a state is threatened, as in recent cases of direct state action to marginalise threats of terrorism (Jessop, 2016, 64). Alternatively, parliamentarism is a form of indirect citizen participation in political decision making, where citizens are considered to have an equal influence over the political system through their decision to exercise their voting rights in electing a representative to parliament (Jessop, 2016, 62). Whilst Denmark has a strong parliamentary system based on a representative democracy, the country has also been considered a corporatist state. Corporatism involves the political representation of member-based corporations in the political policy formulation and implementation process

(Jessop, 2016, 62). For example, Denmark has been considered a strong tripartite corporatist state that involves employer associations, trade unions and the government in policy-making decisions. The Danish example highlights how corporatist states reflect the wider division of labour within society (Jessop, 2016, 62); therefore, the Danish form of corporatism may be considered a means of reproducing the general conditions of capitalism for the interests of both trade union members and employers, rather than specific capital interests (Panitch, 1980).

Modes of articulation in the SRA may be understood as the different forms of institutional configuration and architecture of the state, which are organised horizontally, vertically, and transversally, and can be “expressed through the distribution of powers territorially and functionally” (Jessop, 2016, 66). The vertical sites of institutional configuration of the state can be thought of as the various branches, ministries, and departments of the government, which do not take a static form, as the scope of policy responsibility can fluctuate between the different sites of the state (Jessop, 2016, 66). These vertical structures are not necessarily independent, and may reflexively intervene with one another. There are also different horizontal tiers of legislatures, each with a defined set of responsibilities to act within a system of checks and balances, which seek to limit the political ability of different branches of government to autonomously implement policies (Jessop, 2016, 66-67). Additionally, these horizontal structures of governance can also exist beyond the state, and may be manifested as supranational organisations, such as the IMF, which can influence or constrain the actions of a state. Despite the vertical and horizontal organisational structure of the state, different sites of the state can interact transversally between one another on each scale, and are not forced to go through the different layers of the state (Jessop, 2016, 66-67). The functioning of the institutional architecture of the state may not be reduced to a “black box” with a focus on distinct inputs and outputs, as it ignores the organisational nexus required to reproduce the operation of the state, as well as the influence of a wide range of actors within the state, each with their own set of personal and professional objectives (Jessop, 2016, 67). The internal functioning of the architecture of the state can be understood as a widespread system of bureaucratisation, which is implemented by a specific set of career officials, alienated from their administrative means of production, and their subordination to a set of rules, financial constraints and hierarchical command structure, which links the levels and sites of the state (Jessop, 2016, 67).

The bureaucratic nature of the institutions of the capitalist state cannot be recognised solely as an attribute of the state, but rather can be linked to the wider bureaucratic process that has developed in tandem with the advancement of capitalism, and is entrenched in the mechanisms and processes of the private sector (Graeber, 2015, 11-14). The institutions of the state may be considered akin to empty vessels, and have no specific objectives of their own, and the institutional articulation of the state, as well as the processes of implementation within those institutions, can be linked to a wider set of power relations external to the state (Jessop, 1982, 211). Additionally, the dominance of a particular department or ministry within the state apparatus can reproduce the economic, political, ideological or social dominance of a particular faction of society (Jessop, 2016, 68). An example of the ability of certain actors within specific institutions of the state to influence power relations external to the state can be seen with the strong links between the UK Treasury, the Bank of England, and the financial sector in the City of London (Jessop, 2016, 68-69; Talani, 2012, 34). The combination of bailouts for the financial sector to mitigate the GFC, as well as the absence of any meaningful regulation in the aftermath of the GFC, suggest that the influence of the City is such that there have been specific policies implemented to maintain the City's position as one of the most important financial sectors in the world, whilst other sections of British society have been marginalised (Talani, 2012, 144). In the Danish case, the government bailouts for the financial sector totalled approximately 8 per cent of GDP, which resulted in a reduction in social spending (Vis et al, 2011). However, the Danish government also passed legislation to strengthen the domestic financial regulator "to limit overly risky behaviour on the part of the banks in a future upturn" (Carstensen, 2011, 106). Therefore, the influence of the financial sector over government policy may be stronger in Britain than in Denmark.

The modes of intervention available to the state can be linked to the ability of the state to delineate what constitutes the domains of public state activity and private non-state activity (Jessop, 2016, 70). These modes of intervention form the core of the examination of this research project, which can also be thought of as the various macro and micro mechanisms of power used by the state to intervene in both domains, in terms of both incentives and disciplinary mechanisms (Jessop, 1982; 2016, 70). The SRA uses a concept similar to Mann's (1988) infrastructural power to define the macro capabilities of the state to permeate wider society and organise social relations in line with the desire to implement specific policy decisions made

within the institutions of the state (Jessop, 2016, 70). The infrastructural power of the state can be linked to the macro mechanisms of power that can intervene in policy areas via means such as money, including credit creation and taxation; organised coercion; knowledge and information, and the law, which may include abidance to the general rule of law, or a more contingent and flexible strategy (Jessop, 2016, 70). The analysis of the micro mechanisms of power can be linked to the Foucauldian micro-physics of power, which can take different forms in different institutional sites of power (Jessop, 2008, 148). The key aspects of Foucault's work on the state seek to explain the top-down disciplinary mechanisms used by the state to establish a desire for the individual to prescribe to specific normalised patterns of behaviour for those who engage with state institutions, such as prisons, hospitals and schools (Foucault, 1977). Additionally, the use of governmentalities as technologies of power, defined in the previous chapter, can be used to elicit behaviour modifications in the citizenry in sites outside of the state (Rose and Miller, 2010; Foucault, 1979).

There are three clarifications that need to be made explicit in order for the Foucauldian micro-physics of power to be appropriately incorporated to the SRA framework (Jessop, 2007). Firstly, any assumption that there must be an over-arching pattern of Marxist class domination must be rejected, as the disciplinary mechanisms implemented by the state can be linked to sites and motivations that are not directly involved in the system of capitalist production (Jessop, 2007, 38-39). Secondly, the technologies of power can either be segregated or integrated, which allows the mechanisms of power to be either dispersed and delineated into specific sites of power, or various mechanisms and sites of power can be combined and integrated to form a "strategic codification" to produce a desired behavioural outcome (Foucault, 1979; Jessop, 2007, 39). Thirdly, in political analysis, researchers must "cut off the head of the King", which is made possible by rejecting a specific *raison d'état* related to the objectives of the state (Foucault, 1979, 88-89). Subsequently, the state has no independent object of its own and the actions of the state can be linked to the reproduction of a set of power relations that exist beyond the state, which are codified and consolidated within the institutions of the state (Foucault, 1979; Jessop 2007; 2008). These descriptions of governmentalities and sites of institutional power as strategic codifications of power relations that exist beyond the state, allow for a connection to be made between the micro and macro mechanisms of power (Jessop, 2007, 39). The decision to enter into homeownership (e.g. Grey, 1997) and to access mortgage credit (e.g. Langley, 2007) have both

been identified as producing behavioural changes in the public. Therefore, this thesis examines whether mortgage credit has been used as a Foucauldian technique of intervention by the British and Danish governments to elicit specific behaviour modifications in the public, and whether they can be linked to the wider economic and political structure of each society.

The social basis of the state can be understood as the specific configuration of social forces within a state, which are constituted by subjects and actors that are both organised and disorganised politically, whose support reproduces the structure and operation of the state (Jessop, 2016, 71-72). There is no generalisable “common interest” that encompasses all the specific interests within the state, as the different social factions within the social base have different interests, objectives and demands, and the interaction between these different interests establishes an unstable equilibrium based on a compromise between factions, which is crystallised in the modes of representation and articulation of the state system (Jessop, 2008, 11; 2016, 72). Political support is not based upon a widespread consensus being reached between social factions, but is rather dependent on channels of mass integration or exclusion, which align demands and material concessions to reproduce the unstable equilibrium (Jessop, 2016, 72). Therefore, the boundaries and the identities of the different social factions within the social base may be influenced through the same mechanisms in which the state itself is established, reproduced and transfigured (Jessop, 2008, 11). The presence of an unstable equilibrium suggests there is a tension between social factions surrounding specific policy decisions implemented by the state, which leads the state to mediate the consequences of such policy decisions between conflicting social forces (Jessop 1982, 221; 2008, 11).

The mediation function of the state is tied to the implementation of a policy mix of material concessions, rewards and repression between different social factions, which can be linked to the existing state projects and hegemonic visions related to the social faction in charge of the state apparatus (Jessop, 2016, 72). A state project defines and regulates the distinction between what constitutes the state system in relation to wider society, and provides that state system with the organisational ability to implement inherited, redefined or new policy decisions (Jessop, 2016, 84). The articulation of the state system into specific delineated sites of government is not a unified closed system, and there is no specific policy or objective unity across the institutional architecture of the state (Jessop, 2016, 84-85). Alternatively, the institutions of the state apparatus are influenced by the objectives of a specific state project,

which originates outside of the state and seeks to unify the different departments, branches and sites of government under a specific governmental logic (Jessop, 2016, 85). Governmental logics can stay embedded in the institutions of the state between different state projects that subsequently reproduces state action designed under previous projects, and each state project will seek to implement processes of organisation to achieve their own objectives, which establishes the state system as emergent and open (Jessop, 2016, 84-85). The governmental logics behind a specific state project may not be linked to a specific *raison d'état*, as emphasised by Foucault (1979), but rather are based on a hegemonic vision established by a dominant party in a specific power relation in wider society that is able to take control of the apparatus of the state through parliamentary means (Jessop 2016, 85).

Hegemonic visions (also described in Jessopian terms as hegemonic projects) may be understood as a particular set of ideal types established in the wider, yet selective, social, economic and political realms external to the state, which are linked to the deeper structures and logics of a particular social faction in society (Jessop, 2016, 86-87; 2008). Hegemonic visions link the actions and objectives of the state to an ideal-type of the public interest, which may be considered illusory as it privileges some identities, temporalities, spaces, ideologies, and material interests over others (Jessop, 2016, 87). A “one nation” state project with a specific hegemonic vision is based on a widespread and inclusive hegemony, that generates widespread political support through the provision of material concessions and rewards in line with the values of the political base they are trying to capture (Jessop, 2016, 87). While alternatively, a “two nations” state project is based on a limited hegemony, where support is achieved through the provision of concessions for the “strategically significant sectors” of the political base at the expense of the politically marginalised (Jessop, 2016, 87). Therefore, actions implemented by the state cannot be attributed to the state as an originating subject, and must be viewed as the emergent, reactionary, complex consequences and externalities of embedded and emerging policies, implemented by competing social forces, linked to ideal types from wider society (Jessop, 2016, 86). In a Marxist context, a hegemonic vision could only be considered Marxist to the extent that the institutions of the state apparatus were used to reproduce the conditions for capital accumulation (Jessop, 1982, 211).

These last three dimensions of the state outlined by the SRA can be used to establish the substantive manifestations of the Danish and British capitalist states. The social basis of the



Danish state can be linked to the mode of corporatist political representation, which includes employer associations, trade unions and the government in the power-bloc. The state project mediates the consequences of policy decisions between these actors, as well as other groups in wider society. Therefore, the corporatist Danish state can be linked to a “two nations” state project with limited hegemony, which has the institutional capacity to implement policies that encourage and reproduce capital accumulation to the extent that both employers and workers benefit in terms of profit and waged employment respectively. Alternatively, in the social basis of the British parliamentary system, organised labour is officially excluded from the power-bloc and, traditionally, has only been represented via the election of Labour Party candidates to parliament. However, the link between the organised labour and the Labour Party has weakened significantly since the election of Tony Blair as prime minister in 1997 (Assinder, 2004). Therefore, Britain, may be considered a “one nation” state project that seeks to establish and reproduce the conditions for capital accumulation, which is only constrained by the need to maintain hegemony through the generation of bottom-up consent from a wide political base.

### **Power and Interests within the State**

Power is a central concept in political analysis, yet establishing a general and widely accepted definition of power has thus far proven elusive. Many analyses of power often start with the “three faces of power”; decision-making power, agenda-setting power and preference shaping power (Dahl, 1957; Bachrach and Baratz, 1962; Lukes, 1974; Hay, 2002, 172-182). However, these traditional definitions of power are ill-suited to explain social relations, which are a central concern for the SRA, as they fail to account for a wider network of influence and may be considered to be overly structurally determined (Jessop, 2016, 91). Alternatively, the incorporation of Foucauldian governmentalities into the SRA can be used to explain individual agency in the acceptance of the incentives and disciplinary mechanisms initiated by the hegemonic vision within or without the state apparatus (Jessop, 2007; 2008). The coherent ideational logic promoted by the governmentality may be distributed by the hegemonic vision through the discursive communication of the potential and actual policies implemented by the state (Jessop, 2007). The Foucauldian understanding of power can be related to a particular “complex strategical situation in a particular society,” where the desire to access or avoid an

object allows for the identification of the nexus of power relations connected to that object (Foucault, 1979, 93, 81). Therefore, each policy promoted by the hegemonic vision through the state apparatus is a discursive communication that contains within it its own morality, which simultaneously establishes the subject, object, ideational values and rules of action that are related to the policy (Rose and Miller, 2010, 3; Foucault, 1970, 236; 1985, 25-30). The subject of the policy is what is discussed by the policy, while the objects of the policy are the people targeted by the policy (Foucault, 1970, 236). Additionally, the objects of policy may be considered “entities that are regulated or protected through some clear legal or political commitments”, which allows non-individual objects, such as the macroeconomy, to be identified as policy targets (Stavis and Boswell, 2006, 211). The values of the policy establish a coherent logic of how the policy objects are to potentially understand the subject of the policy, whilst the rules of action explicitly or implicitly define the behaviour required by the objects of policy to access or avoid the defined values of the subject of the policy (Foucault, 1985; 25-30).

Within the SRA framework, power can be understood in narrow terms of effects, and more broadly as the interaction between “social forces, material and symbolic resources, modes of calculation, strategies and tactics, social technologies, and structural constraints and conjunctures opportunities” that produce those effects (Jessop, 2016, 92). These effects of power are felt between interests, which can be defined “in terms of potential outcomes, in particular situations, for specific subjects who have internalised specific identities” (Jessop, 2016, 94). Therefore, an analysis of power and interests using the SRA framework can be performed through an examination of the relationship between social factions in specific conjunctures, where individual and collective actors are constrained by structures that they are unable to alter in a specific time period, and such constraints vary between agents and their relative position in the wider social formation (Jessop, 2016, 95). In Marxist analyses of the state, the influence of power and interests over the state can be examined through the domination of particular social relations over others in the economic, political and ideological spheres, which are interconnected and overdetermined, and the dominance of the capitalist class is related to the degree of capital accumulation within a state achieved through these particular spheres (Jessop, 2016, 97-114). In Marxism, the economic system of production is the locus of the friction between social relations, as it establishes a social class distinction between the capitalist class, which owns the means of production, and the working class, who sell their labour to the capitalist class in exchange for a

wage (Marx, 1990). The relationship between the working class and capitalist class is antagonistic, as each party strives to achieve a greater share of the profits from production to the detriment of each other.

Different forms of capital (e.g. financial capital, production capital, and monopoly capital) can collectivise in an attempt to establish the optimal conditions for capital accumulation. Conversely, the collectivisation of workers places limitations on the establishment of the conditions for capital accumulation. Although factions of capital can unite behind a hegemonic capital to establish a successful state project, the project is constrained in its ability to purely reproduce the conditions for capital accumulation using policy incentives and disciplinary mechanisms by the influence of the economic, social and political base within a state. If the political and social base were to reject a particular capital accumulation strategy, as they believe that it is not in their own interests, then there is a chance that the state project would lose support, which would jeopardise the influence of the factions of capital supporting the state project (Jessop, 2016). Therefore, the political realm must be considered both a constraint and aid to the economic realm, depending on the relative acceptance of a capital accumulation strategy by the factions of wider society (Jessop, 2016, 103). The ideological realm is related to the organisation of ideas, which influences the conduct of individuals, and manifests itself in both individual and collective life (Jessop, 2016, 105-106). “Organic ideologies” provide a coherent logic to a particular capital accumulation strategy so that the subordinate parties in society understand how it benefits them, and these ideologies are promoted by sites of the ideational, such as the media, which are permeated throughout society in both public and private institutions (Gramsci, 1971). Not all sites of the ideational are controlled by the state, and different social factions are able to generate ideologies that compete with one another. Therefore, as with the political realm, the ideational realm can both constrain and aid a particular capital accumulation strategy.

The use of the SRA suggests that the economic, political and ideological realms can be joined under a state project that is directed in line with the hegemonic vision of one dominant form of capital, which is supported by different factions of capital, and performs a mediation function between those competing capitals (Jessop, 2016, 114). Whilst a dominant capital faction may be able to direct the strategic orientation of the state, the activation of the hegemonic vision needs to be translated into policies by technical experts and intellectuals, which are then implemented by the architecture of the state (Jessop, 2016, 114). These policies can be linked to

the political and economic demands of the hegemonic faction of capital, through the implementation of capital accumulation strategies, social hegemony mediation and political governance (Jessop, 2016, 114). A hegemonic capital accumulation strategy must also account for the influence of other class and non-class forces, which can shape the labour-capital relation (Jessop, 2016, 114). For a capital accumulation strategy to be considered hegemonic, it must be accepted by the subordinate economic class, and the other non-dominant factions of capital, which requires an organic ideology to be promoted that establishes a coherent logic for the subordinate groups to positively and actively demand it (Jessop, 2016, 114). A state may only be considered capitalist to the extent that a hegemonic vision has been able to establish and reproduce the conditions for capital accumulation in a specific strategic situation based on the economic, political and ideational configurations within a state, and it is subsequently non-capitalist to the extent that these conditions are not met (Jessop, 1982, 221; 2016, 97). The six dimensions of the state, coupled with the Foucauldian understanding of power, allow for a meaningful comparative analysis of the use of mortgage credit by the British and Danish states. Therefore, this thesis will use the SRA to examine whether the institutions of the state have used mortgage credit as a technique of power to produce and reproduce the conditions for capital accumulation, as well as a mode of social inclusion to establish hegemony across the divergent and diverse social formations of Britain and Denmark.

### **Considerations and Adjustments to the SRA**

While the SRA provides a highly-sophisticated account of Marxist state theory, there are three main issues that must be addressed and refined. The first criticism of the SRA suggests that the mechanisms of power and socialisation that are implemented to develop subordinate consent to the hegemonic vision are developed from the top-down, which implies a lack of individual agency and are, therefore, overly structuralist in nature, despite the SRA's focus on the overdetermined relationship between agency and structure (Kelly, 1999, 114). Jessop (1990, 266) suggests that agents lack free will, and incorporates the concept of Foucauldian governmentalities to explain how workers accept the subordinate position within the economic and political relations to the dominant capitalist class as a reaction to the structure they find themselves in (Jessop, 2008, 154). The implication here is that the reproduction of capitalism is

inevitable due to the structural constraints placed upon individuals, which determines actor behaviour within capitalism (Biebricher, 2013, 398). Jessop's (2008, 154) integration of Foucauldian governmentalities into the SRA as an explanation of individual behaviour within the state is executed in a manner that implies a top-down system of power that is reinforced through the over-determination of structure and agency within a state, which is then legitimised from the bottom-up through a form of structured manufactured consent. However, a further clarification on Foucault's work beyond Jessop's (2007) considerations may dispel the accusations of excessive structuralism within the SRA.

For Foucault (1979, 95), the idea of a top-down system of power is unsustainable, and power must be derived from the bottom-up, as there must be the possibility for the subordinate subject to think that they can potentially resist that power, otherwise subjects may believe they exist in a totality (Dreyfus, 1996, 1; Gordon, 1999, 406). As all individuals are subjected to various governmentalities, yet not all individuals interpret, react or adhere to each governmentality they are subjected to, then there exists the possibility of transcending the governmentality, allowing for the space for individual agency. Deviations from the expected behavioural outcome of those subjected to the governmentality act as a signal that resistance to the governmentality is possible. However, the interpretation of that resistance may be undesirable, leading subjects to choose the structured path dependency offered by the governmentality. Deviations also act as a vanguard to reproduce the subordinate position of the subject in social power relations as the deviant "other" is resisting on behalf of the subject, allowing the subject to reproduce their internalised complicit behaviour safe in the knowledge that the "other" is resisting, and the subject does not have to. Whilst the Foucauldian perspective allows for the incorporation of individual agency within the SRA framework, the emphasis on the desire for specific outcomes as a motivation of human behaviour to engage with the political and economic structures both inside and outside the state ignores loss aversion. Adopting loss aversion as the motivating factor that leads individuals to engage with path dependencies within the political and economic infra-structures allows for the further incorporation of Marxism into Foucauldian theory. For example, instead of the worker choosing to work as a result of a functionalist response to the political and economic infra-structure they find themselves in, the commodification function highlights deviations from "normalised" worker behaviour that are evident in those who "choose" not to work and are marginalised by society, and face a greater

threat of physical insecurity (e.g. welfare recipients, the homeless, the uneducated, part-time workers, etc.). These deviations from the infra-structural constraints of the commodification function act as a signalling device that establishes a bottom-up system of consent, which leads the working class to demand capitalist class hegemony to provide employment to mitigate the physical insecurity demonstrated by deviant behaviour (Tronti, 1966).

The second issue suggests there is a distinct lack of specific sites of class struggle, as well as actors within that struggle, which has led to further criticisms of the SRA (Hay, 2006a; Biebricher, 2013, 398). However, this may be due to the deliberate high level of abstraction of the SRA as a broad approach, which could be mitigated by the application of the theory to specific cases and social classification systems (Biebricher, 2013, 398). For Jessop (1990, 157-177), social class cannot be strictly delineated and reduced to a traditional Marxist formulation, based on the individual's position in the capitalist system of production between the capitalist class that owns the means of production and the working class who exchange their labour for a wage from the capitalist. The marginalisation of traditional Marxist social classifications has led to fitting calls for explanation as to what is specifically Marxist about the SRA (Hay, 2006a, 77-78; Biebricher, 2013, 397). The use of a modified Neo-Marxist analysis of class may mitigate this issue; Neo-Marxism allows for a synthesis between the Marxist and Weberian class stratifications, where the "capitalist-worker" relationship is not exclusive of the Weberian "employer-employee" class relationship (Burris, 1987, 87). However, while the traditional Neo-Marxist class stratification is useful for the analysis of post-industrial economies, it is not fully applicable to a finance-oriented economy, as the Weberian analysis does not comprehensively allow for an understanding of corporate ownership within the financial system.

The key market participation in financialised economies is based on the ownership of financial assets, therefore, the concentrated ownership of financial assets may be thought of as the central determinant of membership to the capitalist class (Foster, 2007). Subsequently, this theoretical framework will use a modified understanding of the Neo-Marxist class analysis, where individuals may be considered members of the capitalist class if they have enough income derived from concentrated share ownership to mitigate the need for employment from other capitalists. Additionally, as the owners of the means of production in financialised capitalism, they may also be considered employers. Individuals may be considered workers if they do not have enough corporate share ownership to generate an income, which emphasises their need for

employment to reproduce their existence, and, therefore, must obtain a wage in exchange for their labour as an employee. The use of Marxism may explain the relationship between capital accumulation and state power using the SRA, as the capitalist class aims to control the institutions of the state to implement policies and networks that ensure that the distribution of gains from production flow to the capitalist class, and maintain the reproduction of those distribution networks (Jessop, 2008, 154).

The third criticism highlights how the SRA fails to explicitly provide an outline of how to achieve Marxist emancipatory alternatives to capitalism, such as socialism and/or communism, nor is there any route as to how the state may be used to realise those objectives, which has led to further questions as to the relevance of the SRA as a Marxist understanding of the state (Kelly, 1999, 114; Hay, 2006a). However, whether socialism and/or communism may be considered as liberation from capitalism is highly questionable, as several of the variants of socialism and communism that have been implemented historically have either produced brutal dictatorships or deteriorated material conditions for the citizenry (Camus, 2000). Whilst there are many advocates of socialism and communism who would argue that these were not “true” implementations of the ideal type of Marxist emancipation, the same argument could be put forward by proponents of “true” liberal capitalism, which has not been implemented in a Galtian vision of capitalist utopia (Rand, 1997). Therefore, one must take the criticisms of the economic systems as they have been implemented, not on their idealised utopian visions. Consequently, this project will use Marxism as a mode of analysis of capitalism, rather than as a means to achieve specific “Marxist” policy prescriptions. The objective of using Marxism as a means of analysis in this research project is to be able to identify the mechanisms in which financialised capitalism establishes specific path dependencies for the subordinate groups within society, through the creation of specific political and economic infra-structures and examine the motivation for subordinate groups to engage with those structures. Therefore, the only emancipatory objective of this project is to be able to provide the subordinate groups within capitalism greater information to identify and potentially dissolve any path dependencies set by the political and economic infra-structures inherent within capitalism to which they may not wish to adhere.

## Comparative Political Economy Typologies

Although the SRA provides a robust means of analysing the overdetermined relationship between different political, economic and ideological structures within states, it has not been developed into a formal set of comparative political economy typologies that can be used to analyse differences between capitalist states. However, Jessop's (1993) identification and categorisation of different post-Fordist Schumpeterian Workfare States (SWS) may be considered the closest link between the SRA and a set of comparative typologies. A SWS can be broadly defined as "the promotion of product, process, organizational, and market innovation; the enhancement of the structural competitiveness of open economies mainly through supply-side intervention; and the subordination of social policy to the demands of labor (*sic*) market flexibility and structural competitiveness" (Jessop, 1993, 9). More concretely, three specific SWS typologies are identified; neo-liberal, neo-corporatist, and neo-statist (Jessop, 1993, 28). The neo-liberal SWS places an emphasis on individual responsibility for their welfare needs, which are largely obtained through private and market-based sources, and the state provision of welfare subsidises low-wage employment (Jessop, 1993). The neo-liberal SWS also promotes labour market deregulation, and supports innovation through the "reorientation of economic and social policy to the perceived needs of the private sector" (Jessop, 1993, 29). The neo-corporatist SWS balances the interests of different institutionalised economic actors through the political policy formulation process, by balancing co-operation, favoured by trade unions, with the competitive practices preferred by private enterprise, which can encourage innovation (Jessop, 1993, 30). Lastly, neo-statism involves the development of private markets through state intervention, as a means of developing innovative industries as a specific form of "national accumulation strategy" (Jessop, 1993, 31). States may have a dominant SWS strategy, such as the neo-liberal SWS in Britain, but that does not exclude states from using other SWS strategies in other policy areas (Jessop, 1993). Although these SWS typologies have been used to examine both post-Fordism in Britain (Jessop, 2003) and Denmark (Torfing, 1999), they have not been widely applied to analyses of financialisation. Additionally, there seems to be no direct method of linking the SWS to a comparative assessment of systems of housing finance, which limits their suitability for this analysis.



An alternative means of analysing and comparing different capitalist states is offered by Esping-Andersen et al (1976), who suggest that there is a reflexive relationship between Marxist class struggle and the state. Capital is considered a social relation operating at two distinct levels; the level of production and the level of circulation (Esping-Andersen et al, 1976, 199). The level of production examines the system of production, which refers to the organisation of the production process, and the creation and distribution of surplus value (Esping-Andersen et al, 1976, 199). The level of circulation refers to the relationships of exchange between commodities, such as goods and services, or the relationship of exchange between capital and labour. As class struggle can influence the capitalist social relation, the state can be reduced to two main forms; a state that reproduces capitalist social relations and a state that does not reproduce capitalist social relations (Esping-Andersen et al, 1976, 201). These two typologies can be further broken down in terms of the structured consequences of state intervention that are implied by the political demands from the results of class struggle (Esping-Andersen et al, 1976, 201). These forms of state intervention may either be commodified, which are provided through the private market, or non-commodified, which are provided by the state (Esping-Andersen et al, 1976, 199). The combination of these factors leads to the development of eight distinct typologies of capitalist state, where policy interventions can be linked to a level of circulation, specific class bias, and degree of commodification. Although the typologies developed by Esping-Andersen et al (1976) provide a means to analyse and compare different capitalist states, their reduction to a Marxist class-based analysis may not be sufficient for an examination of systems of housing finance in post-Fordist financialisation.

The capitalist state typologies put forth by Esping-Andersen et al (1976) have been more concretely defined in the welfare state regime (WSR) typologies developed by Esping-Andersen (1990), which are considered a seminal piece of work in comparative political economy. Additionally, as the WSR typologies explicitly incorporate an examination of housing markets through the provision of social housing, they may be more applicable to this analysis than the SWS (Esping-Andersen, 1990). The WSR typologies are based on the combination of three key areas; decommodification (the lower market provision of goods and services), social stratification and the public-private mix (Esping-Andersen, 1990, 2). The combination of these three areas established three qualitatively distinct welfare state typologies; Liberal (e.g. the UK, and USA), Conservative (e.g. Germany and France) and Social Democratic (e.g. Denmark and

Sweden), where, *ceteris paribus*, a greater worker influence may correspond to a higher degree of universal and decommodified service provision (Esping-Andersen, 1990, 54; Schwartz and Seabrooke, 245). Whilst the WSR typologies have been considered a significant means of comparative analysis, there have been significant criticisms levelled at the WSR typologies based on the measurement and applicability of the decommodification variable (Bambra, 2006; Arts and Gelissen, 2002). Even though decommodification is a key concept in the development of the WSR, each typology is ultimately based on an inherent explicit causal logic that goes beyond the decommodification measure, which may not be applicable to an analysis of housing systems (Schwartz and Seabrooke, 2008, 245). The perceptions of self-interest in relation to demand for housing in many markets has been “dramatically realigned away from communal wealth and towards increasing individual wealth” and an increase in worker political power could lead to a greater demand for private owner-occupied housing, increasing the degree of housing commodification within a state (Schwartz and Seabrooke, 2008, 245). Additionally, across the WSR, differentiated levels of worker political power do not correspond to similar rates of private owner-occupied homeownership (Schwartz and Seabrooke, 2008, 246). These key issues suggest that the WSR typologies may not be best suited to a comparative political analysis of housing finance systems.

Another important form of comparative political economy typologies is the varieties of capitalism (VOC) approach, developed by Hall and Soskice (2001). The VOC makes a distinction between typologies of market economies; liberal markets, such as the UK and USA, and coordinated markets, such as Germany and the Scandinavian countries (Hall and Soskice, 2001, 8). In liberal markets, firm activities are influenced by competitive market practices based on a system of exchange and formal contracts, where the price of a good can relate to the relative demand and supply of a good (Hall and Soskice, 2001, 8). Alternatively, firms in coordinated markets are less reliant on market mechanisms, and place a greater emphasis on non-market interactions, which can be related to collaborative and strategic interactions between firms, non-market institutions, and other actors (Hall and Soskice, 2001, 8, 33). A key element of the VOC typologies is the focus on labour market regulation, where liberal markets are categorised as having flexible employment markets, which allow firms to terminate employment contracts to meet the needs of the firm (Hall and Soskice, 2001, 16). Alternatively, co-ordinated markets are

considered to have strong labour institutions that favour long-term employment, which makes employment termination difficult (Hall and Soskice, 2001, 16).

Although the VOC typologies are considered a major reference point in comparative political economy, they are “still coming to grips with both housing and finance” (Fernandez and Aalbers, 2016, 83). There are three key issues when applying the VOC to housing finance markets, which are central to the analysis of this project. Firstly, the distribution of mortgage credit within a country can be understood in terms of the degree of financial repression within a state, and cannot be strictly delineated into the VOC typologies of coordinated and liberal market economies (Schwartz and Seabrooke 2008, 238). Secondly, the VOC argues that macro-economic outcomes are the result of manufacturing production and export policy. However, systems of housing finance are considered significantly more connected to global macro-economic outcomes than manufacturing production, and are not accounted for by the VOC (Schwartz and Seabrooke 2008, 238). Third, the VOC literature places an emphasis on domestic configurations to explain outcomes, which fails to provide an adequate account of international processes in light of the interconnected global economic and political system (Schwartz and Seabrooke 2008, 239). These three issues suggest that the VOC may not provide a comprehensive set of typologies for a comparative political economy analysis of housing finance systems.

Whilst the WSR and VOC typologies are both considered seminal pieces of work, they are not able to provide a comprehensive examination of how systems of mortgage finance are integrated into the wider economic and political institutional configuration within a state, which is a key contribution from the Varieties of Residential Capitalism (VORC) literature (Schwartz and Seabrooke, 2008). The VORC typologies are primarily based on a combination of the political and economic institutional frameworks that have established variations of the owner-occupation rate within a state, which demonstrates the degree of housing commodification, and the ratio of mortgage debt to GDP, which measures both the rate of financial repression and the degree of connection to global financial markets (Schwartz and Seabrooke 2008, 256). In addressing the domestic focus of the VOC approach, the VORC typologies emphasise the transnational nature of financial markets, as global housing finance systems are interconnected and the deregulation of national-level domestic housing finance markets may be considered “a transnational phenomena tied to increased global financial integration” (Schwartz and Seabrooke

2008, 238). Additionally, the availability of mortgage credit can be linked to the degree of social stratification within a state, which has consequences for the wider economy, and reproduces inequalities in financially repressive housing systems, whilst also shaping economic and political preferences in financially liberal systems of housing finance (Schwartz and Seabrooke 2008, 239).

The VORC identifies four distinct typologies of housing and mortgage systems; the liberal market, the corporatist market, the statist-developmental market and the familial market. The liberal market form of residential capitalism is characterised by high levels of owner-occupation and high ratio of mortgage debt relative to GDP, which includes countries such as Britain and the USA (Schwartz and Seabrooke 2008, 256). The liberal markets are highly commodified, with private housing used as a financial asset, and many citizens are priced-out of the private housing market, which has created a strong degree of market stratification between private owners and renters, as well as inter-generational equity problems (Schwartz and Seabrooke 2008, 256). The corporatist housing market, to which Denmark has been associated, is characterised by housing provision, both public and private, as a social right, with relatively lower levels of owner occupancy, but a high mortgage debt to GDP ratio (Schwartz and Seabrooke 2008, 256). Alternatively, the corporatist market is strongly stratified between private owners and renters, and as with the liberal markets, there are issues around inter-generational equity (Schwartz and Seabrooke 2008, 256). The statist-developmental market, to which Sweden has been linked, similarly considers housing as a social right, which is also provided by both the private and public sector, but with lower rates of owner-occupation than the corporatist and liberal markets, and the high degree of repression of financial markets has limited the mortgage debt to GDP ratio (Schwartz and Seabrooke 2008, 256). The familial market (e.g. Italy) has a high owner-occupation rate, combined with a low mortgage debt to GDP ratio, and housing is not considered a social right, but is rather understood a social familial good (Schwartz and Seabrooke 2008, 256). Here, the stratification in the housing market is linked to access to the formal employment sector, and these factors combine to suggest that housing as a good is non-commodified, but may not be considered as de-commodified (Schwartz and Seabrooke 2008, 256).

There have been criticisms of the VORC, namely that the typologies mainly focus the variation at a national level, which fails to sufficiently account for individual behaviour, and

marginalises personal preferences around housing tenures (Ansell, 2014, 384). The VORC also fail to account for the repeated financial crises that often emerge from the private housing debt market, which is a recurring theme in capitalist economies, as highlighted by the GFC (Fernandez and Aalbers, 2016, 78). Fernandez and Aalbers (2016, 81) offer an alternative set of typologies for analysing housing finance markets, based on the owner-occupation rate, the mortgage debt to GDP ratio (both of which are used as component variables in the VORC), as well as the IMF mortgage market index. Whilst the approach to analysing housing finance markets put forward by Fernandez and Aalbers (2016) is interesting, the VORC are a much more widely cited means of comparing housing finance systems. Therefore, whilst the construction of the VORC typologies may not be perfectly applicable or generalisable, the distinction between the different housing markets created by the VORC provides an established, viable, and valuable means of developing a comparative account of how different housing markets and their corresponding systems of mortgage finance are integrated into the wider political, economic, and social infrastructure, at both the national and international level.

Housing finance systems are not politically neutral, which provides a link between the mortgage credit channel of financialisation and the state (Schwartz and Seabrooke, 2008, 238). The degree of repression or liberalisation of mortgage credit in each state may subsequently be related to specific political objectives. Here there is a link to the role of private housing in the structure of welfare state, which is typified by the Kemeny (1980; 2005) and Castles (1998; 2005) debate. Kemeny (1980; 2005) argues that there is a direct trade-off between private homeownership and a strong welfare state, whilst Castles (1998; 2005) suggests that there is a trade-off between private homeownership and strong pension provision. Whilst the Kemeny and Castles debate provides plausible understandings of how levels of owner-occupation can shape the structure of welfare service provision, the debate fails to account for how politically-motivated changes in the structure of the welfare state may have influenced the demand for private housing (Schwartz and Seabrooke, 2008, 255-256). Since the 1980s there has been a generalised trend of welfare state retrenchment (e.g. Pierson, 2001) that has seen the emphasis of responsibility for welfare provision shift from the state to the individual, which has coincided with the rise of financialisation (Hay, 2006b, van der Zwan, 2014). This widely observed shift in welfare service provision has taken different forms in different states, and the VORC literature explains the divergent consequences of these changes in welfare provision in terms of demand

for private housing and mortgage finance within the typologies (Schwartz and Seabrooke, 2008, 257-258). However, the VORC literature fails to provide an adequate explanation for the top-down reshaping of the welfare state that influences the political, social and economic preferences of individuals within the state, which develops bottom-up consent to the wider processes of financialisation.

Here there is a link back to Jessop's (1993) SWS typologies, as the role of top-down subject formation due to changes in the structure of the welfare state can be related to the observed shift from public Fordist Keynesian welfare provision to private post-Fordist Schumpeterian workfare systems in Britain and Denmark (Jessop, 2003; Torfing, 1999). SWS emphasise labour market activation policies, which provide incentives for the unemployed to seek employment. In Britain, the emphasis on individual responsibility for welfare provision has increased demand for the private home as a financial asset, where the financial gains from homeownership are accessed by taking on mortgage debt (Montgomerie and Büdenbender, 2015). The financialisation literature that has highlighted the importance of debt as means to access welfare goods and services (e.g. Montgomerie, 2013), which has also been described as debtfare (Soederberg, 2014). Widespread household engagement with household debt has been identified as a mode of capital accumulation, which redirects income from workers to financial institutions, where it is transformed into capital (Soederberg, 2014). However, the financialisation literature fails to fully account for the necessity of present or future income from employment to access household debt, which establishes a demand for employment, and may be considered a form of a Schumpeterian labour market activation policy in itself.

This intersection between the labour market and debt, where access to private welfare goods and services through debt instruments is contingent on employment, provides a link to the disciplinary consequences of engaging with household debt, such as mortgage credit. Taking on household debt establishes investor identities for borrowers who adjust their behaviour to avoid the negative threat of debt default, which causes borrowers to prioritise stable employment to meet their debt obligations over potential employment instability from bargaining for higher wages (Langley, 2007; Grey, 1997). Therefore, the negative threat of debt default, which would cut-off access to debt-funded welfare provision, acts as a form of Schumpeterian labour market activation policy that creates an incentive to find and maintain stable employment. The disciplinary effects of taking on debt have also been identified as a key driver in the reduction of

the wage share of national income and has seen an increasing share of GDP redistributed to capital in advanced economies (Köhler et al, 2015). The increase in the capital share of GDP suggests that the increased worker engagement with household debt contributes to the establishment of the conditions for capital accumulation at the expense of workers in advanced economies, thereby reproducing a key Marxist power relation. However, there has not been a dedicated analysis of the effects of the distribution of mortgage credit on the wage share, and how mortgage credit relates to the wider political economy of a state.

In sum; the theoretical framework of this thesis will use the SRA as a means of analysing and comparing the British and Danish state forms, as well as their substantive manifestations. The VORC typologies will be used in conjunction with the SRA to assess how systems of mortgage credit can be related to the state, as well as the wider political economy of both Britain and Denmark. The use of VORC typologies also provide an effective means of comparing the use of mortgage credit in both states, which will be assessed in line with the wider literature on financialisation that identifies household debt as a key part of a capital accumulation regime. Therefore, the British and Danish states will be examined to assess whether mortgage credit has been used as a technique of power to establish the conditions for capital accumulation at the expense of waged labour, thereby reproducing a key Marxist power relation. The SWS literature that emphasises labour market activation policies channel of financialisation will also be incorporated to examine whether mortgage credit has been used as a technique of disciplinary power by the state to establish and reproduce the demand for employment.

## **Conclusion**

In order to examine the role of the state in a financialised capitalist economy based on loss aversion, Jessop's (1982; 2008; 2016) "strategic relational approach" (SRA) will be used to allow for a synthesis between Marxist and Foucauldian analyses of the state (Jessop 2007, 40). The SRA framework suggests that states are only capitalist to the extent in which the state facilitates the conditions for capital accumulation, and the architecture of state apparatus may be considered a set of institutions that are designed to implement legislative policy decisions, and is unable to exercise power of its own (Jessop 1982, 211). In democratic capitalist states, institutional responsibility is linked to democratic accountability; therefore, state power is bound

by the need to navigate complex domestic social relations, which are composed of both class and non-class entities that reflect the dynamic nature of social forces within a given polity, and must be legitimised through the political process (Jessop 1982, 211). Class struggle culminates in an attempt to secure hegemony over the institutions of the state, which involves the interpellation of different economic, political and ideological factions into accepting a state project based on a hegemonic vision that manufactures a relative unity of antagonistic social forces into a functioning social formation (Jessop 1982, 2016). To foster acceptance of a state project with a specific hegemonic vision, support must be generated by consent, through incentives, as well as coercion, through disciplinary mechanisms, both of which can work through the macro and micro channels of intervention by the state (Jessop 1982, 246; 2008; 2016).

The incorporation of Foucauldian governmentalities into the SRA is used to explain individual acceptance of the incentives and disciplinary mechanisms initiated by the state (Jessop 2008, 154). However, it is important to reiterate that the objectives of the state implementation of governmentalities are not related to any specific *raison d'état*, but must be linked to a desired objective of the hegemonic vision that reinforces a power relation existing beyond the state and its institutional framework (Foucault 1979, 89). The disciplinary mechanisms and incentives implemented by state institutions may create asymmetrical results and externalities, which marginalise some factions whilst simultaneously privileging others. Therefore, a key role of the state is to mediate the consequences of state action on conflicting social forces, which forbids the hegemonic state project from implementing policies that purely meet the objectives in line with the ideal-type of the hegemonic vision (Jessop 1982, 221; 2008, 11). In sum; the use of the SRA allows for the Marxist explanation of the struggle for the profits of production to be used to understand the direction of the motivations behind a hegemonic vision's choice of actions when in control of the state institutions in financialised capitalism, while the Foucauldian understanding of incentives and disciplinary mechanisms as governmentalities may be used to explain the “polymorphous techniques of power” used to meet those objectives (Jessop 2007, 40; Foucault 1979, 11).

Although the SRA allows for a robust examination of a specific state, it does not provide a means of comparing the political economy between states. Comparative political economy has been dominated by two sets of typologies; the VOC approach and WSR theory. Although these works are highly influential, they are not wholly applicable to a comparative analysis of housing



finance systems. Alternatively, the use of the VORC typologies allows for a comparative political analysis of the relationship between the political, economic and social bases, and how they correspond to systems of housing finance in different states. Mortgage finance systems may not be considered politically neutral, therefore, the degree of financial repression or deregulation of mortgage credit within a state can be linked to specific political objectives. Additionally, the wider literature on financialisation that identifies household debt as a key part of a capital accumulation regime will be incorporated into the analysis. Therefore, the British and Danish states will be compared to assess whether mortgage credit has been used as a technique of power to establish the conditions for capital accumulation at the expense of waged labour, thereby reproducing a key Marxist power relation. The SWS literature that emphasises labour market activation policies channel of financialisation will also be integrated to examine whether mortgage credit has been used as a technique of disciplinary power by the state to establish and reproduce the demand for employment.

## Chapter 3

### Method

*“The more we think over a problem, the more we investigate, analyse, and discuss it, the more complex it becomes”*

Jiddu Krishnamurti (1954, 122)

This chapter outlines and explains the character and rationale for the mixed-methods research design used by this project to address the research questions put forward in the introductory chapter. The first section of this chapter will explain the foundation of this project in the underlying ontological and epistemological assumptions of Critical Realism, which provides a methodological justification for the research design of this project. Above all, the first section also highlights the importance of retroductive reasoning, a key aspect of Critical Realism, which seeks to develop an understanding of a phenomenon based “what must the world be like for that phenomenon to happen?” (Hay, 2002, 30-31; Patomäki and Wight, 2000, 223-224; Jessop, 2015, 240). Retroductive reasoning is used in this project to qualitatively establish the conditions that would be necessary to explain the results of the quantitative analysis. The second section will outline the quantitative method used as an entry point to answer the first research question as to whether there is any meaningful relationship between the falling wage share and the expansion of mortgage credit across different varieties of capitalism, which will be examined in detail in the quantitative analysis of chapter four. The regression model will examine the effects of changes in the total outstanding mortgage stock, as proxy for the degree of engagement with mortgage finance, on the wage share of national income in Britain, Denmark, Sweden and the USA. Although this project will only compare the mortgage and housing systems of Denmark and Britain, Sweden and the USA were included in the quantitative analysis to act as comparisons for each case.

The remaining research question of this project is: What public policy formulation and implementation processes would need to be present to explain the observation or absence of such a phenomenon between different varieties of capitalism? This second research question cannot

be sufficiently answered solely through the use of a quantitative regression model. Therefore, the research design of this project will also rely on qualitative methods in the form of an N=2 “most different” (cf Przeworski and Teune, 1970) comparative case study between Britain and Denmark. The third section of this chapter will provide a full description of the case study method used to examine the distinctive formulations of political and economic structures, as well as the mechanisms that encourage citizens to engage with those structures. It is here that the significance of retroductive reasoning is highlighted, as the case studies would seek to ascertain the conditions necessary, in terms of public policy formulation and implementation that would explain the existence or absence of any relationship between mortgage credit and the wage share in each case. The integration of the method of process tracing is of key importance to the case studies, as it can help identify key policy *formulation and implementation* nodes, which can aid in the evaluation of different possible path-dependent causality variables that may lead to the emergence and reproduction of specific structures in the financial sector as well as in public and private housing.

The fourth section will outline the key qualitative data collection techniques that will be used to evaluate the means and effectiveness of policy *formulation and implementation*. Data collection largely focused on the use of document analysis, which was augmented by the use of semi-structured interviews that were conducted with marketing departments from mortgage lenders, as well as policy-making elites, in Britain and Denmark. Interviews with mortgage lenders were conducted to ascertain whether housing has been successfully promoted as a means to access wealth gains, whether lenders reinforce this notion, and whether lenders act as a gatekeeper to provide those gains to homeowners. Additionally, policy-making elites were interviewed to determine whether the government promotion of private homeownership and the facilitation of mortgage credit are linked to a specific policy goal. The integration of these research methods allows this project to robustly examine whether social and economic norms have been reshaped to establish and reinforce structural path dependencies in financialised capitalism.

## **Methodologies and Critical Realism**

Methodologies may be considered “the means by which we reflect upon the methods appropriate

to realise fully our potential to acquire knowledge of that which exists”, and is, therefore, linked to “the choice of analytical strategy and research design which underpins substantive research” (Hay 2002, 63). Methodologies are influenced by the specific ontology and epistemology designated by the theoretical framework used within a research project (Hay, 2002, 63). The SRA is central to the theoretical framework of this project, and draws heavily on the ontological and epistemological premises of the form of Critical Realism (CR) developed by Bhaskar (1997) (Hay, 2002, 127; Jessop, 2005). Critical Realist scholars emphasise the importance of philosophy as an “underlabourer” to both the social and natural sciences, which both produce second order knowledge as there is a distinction between a theory and the scientific practice itself (Joseph, 1998, 74-75). Scientific enquiry is based on the ability of a theory to explain social or natural objects, where knowledge about an object can change and develop from progressions in analysis (Joseph 1998, 75). Such a presupposition suggests that there is a distinction between an object and the knowledge that can be generated about it. Therefore, there must be an ontological realm that exists independently of our knowledge of the objects in that realm (Joseph, 1998, 75).

The ontological distinction between an object and the knowledge that can be generated about that object also establishes an epistemological distinction between what can be known, based on what the Critical Realist scholars describe as the transitive and intransitive (Bhaskar, 1997). In CR, knowledge of the social and material world is transitive, which corresponds to the “Aristotelian material cause or antecedently established knowledge which is used to generate new knowledge” (Bhaskar, 1997, 21). Therefore, science produces a transitive object of knowledge about the intransitive object that has been examined, which is considered independent of human activity or the level of transitive knowledge about the intransitive object (Joseph, 1998, 77). Intransitive objects of knowledge are those structures, processes and mechanisms that exist independently of us in a relatively enduring state (Joseph 1998, 77). Transitive knowledge can also be produced about transitive objects, which are constituted within the realm of the social that “is not assumed to exist independently of human activities” (Al-Amoudi and Willmott, 2011, 31). Such an understanding is particularly relevant to this thesis, as it seeks to generate additional knowledge surrounding the socially constituted and constructed notions of housing and mortgage finance, and whether they have been used as tools of intervention in different states.

CR is based on an ontological realist position that distinguishes between the Real, Actual, and Empirical; where the Real are generative structures or causal mechanisms; the Actual are events resulting from various real tendencies and counter-tendencies in specific initial conditions; and the Empirical are observations or measurements of actual events and, in some circumstances, underlying structures or mechanisms (Bhaskar, 1989; Jessop, 2005, 41). This has ontological and epistemological consequences for the social sciences, as ontologically, CR suggests that social forms can take both material and discursive guises that pre-exist individuals and are able to influence their activity, but do not exist beyond the individual's own conception of what they are doing (Jessop, 2005, 44). Whereas epistemologically, social science is subject to a double hermeneutic, where the analysis of a social object seeks to reinterpret an object that has already been interpreted in at least one form (Jessop, 2005, 44). In order to account for the epistemological double hermeneutic, a comprehensive examination of a social object would be able to provide an identification of key causal mechanisms as well as a wider interpretative analysis (Jessop 2005, 44). According to Critical Realism (CR), transitive knowledge about both transitive and intransitive objects can advance, based on the fallibility of prior knowledge, and whilst that knowledge can be complex and wide-ranging, it may never be complete (Jessop, 2015, 240).

The ontological and epistemological framework of Critical Realism is compatible with a wide range of quantitative and qualitative methods, which is of particular importance to this project as it allows for the development of a mixed-methods research design (Sayer, 2000, 19; Olsen, 2010, 14). Mixed-methods can be formally defined “as the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches (e.g., use of qualitative and quantitative viewpoints, data collection, analysis, inference techniques) for the broad purposes of breadth and depth of understanding and corroboration” (Johnson et al, 2007, 123). Although methodological purists argue that the divide between quantitative and qualitative research paradigms, and their related methods, cannot be synthesised (e.g. Guba, 1987), there is “no incompatibility between quantitative and qualitative methods [that] exists at either the level of practice or that of epistemology” (Howe, 1988, 10). There are two main strengths to using a mixed-methods research design: the first is that the relative strengths of quantitative and qualitative methods can be combined to address the weaknesses of both (Johnson and Onwuegbuzie, 2004). For example, the strength of quantitative

research is its ability to identify relationships between variables that goes beyond the capabilities of purely qualitative methods. However, such a quantitative analysis cannot provide a robust explanation or justification for such a relationship, which can be mitigated by the use of a qualitative analysis. The second strength of mixed-methods research designs is that they can be used to triangulate the results of an analysis, which acts as a means of testing the validity of the results of a study (Mertens and Hesse-Biber, 2012).

Whilst there are benefits to using a mixed-methods approach, there are also two notable challenges to implementing such a research design. The first issue is that, compared to single-method research designs, mixed-method studies can be more time and resource intensive, as they require multiple forms of research to be undertaken in the research process (Johnson and Onwuegbuzie, 2004; Tashakkori and Teddlie, 2003). Additionally, using both quantitative and qualitative methods requires a sufficient technical expertise to design and implement the research in both phases, which is a challenge for many researchers and is one of the main reasons mixed-methods designs are not implemented (Tashakkori and Teddlie, 2003). However, the researcher of this project obtained a first in several quantitative and qualitative research methods courses undertaken at both an undergraduate and post-graduate level, which suggests a sufficient degree of technical proficiency in both types of research. Additionally, as this thesis was completed within the timeframe set by the ESRC, the time-intensive nature of implementing a mixed-methods research design has not posed a significant hindrance to the research process.

There are many competing rationales behind the justification for using a mixed-methods research design (e.g. Cohen et al, 2013, 21-26); however, the specific rationale behind the deployment of a mixed-methods approach in this analysis lies in the ability of quantitative and qualitative research methods to use and mitigate each other's relative strengths and weaknesses. Therefore, this project implemented a quantitative analysis to establish whether there is any significant relationship between the distribution of mortgage credit and the wage share in Britain and Denmark between 1979 and 2012, while a retroductive qualitative analysis was performed to ascertain the public policy *formulation and implementation* processes that would need to be in place to explain the presence or absence of any relationship in each case. Using retroduction as the form of reasoning in this thesis, particularly as part of a mixed-methods analysis, allows for "a continuous, spiral movement between the abstract and the concrete, between theoretical and empirical work, involving both an interpretive and a causal dimension of explanation" (Belfrage

and Hauf, 2016, 10).

The first phase of this research project used a quantitative statistical model based on a regression analysis, which is common in political and econometric analyses, and can be applied to an examination of social phenomenon using a CR ontological and epistemological framework (Ron, 2002, 133). From a positivistic and empiricist viewpoint, the use of quantitative regression analyses may be considered a means of establishing generalisable laws in the social sciences, where causation can be identified through the observation of a constant conjunction of events (e.g. Hume, 1966). The empiricist view is based on the examination of “closed” experimental situations. However, in the social sciences, it is not possible for isolated components to be examined under controlled experimental conditions (Zachariadis et al, 2010, 7). Alternatively, CR suggests that the social world may be examined as an “open system”, as relations between social phenomena are highly complex, and it is this complexity that prevents researchers from being able to use analytical criteria to identify singular and complete explanations of behaviour (Ron, 2002, 123). However, the inability to identify singular explanations must be accepted as a dearth of knowledge about social relations, partially caused by having insufficient tools of analysis, rather than an inability to generate an understanding about reality itself (Ron, 2002, 123).

A key element of knowledge generation for Critical Realists is based on the ability to identify specific causal mechanisms and establish an understanding of how they work, based on the identification of a structurally tendential relationship between social phenomena (Zachariadis et al, 2010, 3; Ron, 2002, 122). The search for tendential relationships allows CR to use probabilistic regression analyses to identify a potential relationship between phenomena that could not be observed from the data itself or from a purely qualitative analysis, and provides evidence for the existence of an underlying relationship between phenomena that would otherwise remain unknown (Ron, 2002, 121). The retroductive process of CR that seeks to discern “what must the world be like for “x” to happen?” can be aided by the use of a quantitative analysis, which acts as a testing device that can develop a plausible case for whether “x” happens at all due to the influence of some variable y. The relationship between two social phenomena identified by the regression analysis may not be accepted as a definitive causal mechanism or process, and the relationship may be further understood when combined with the use of qualitative methods (Zachariadis et al, 2010).

In order to more fully articulate the understanding of a social phenomenon, CR places a strong emphasis on the context in which causal mechanisms operate, and qualitative research methods are able to contribute to such a research strategy as they are able to explore complex processes and relationships that cannot be captured by a purely quantitative analysis (Parr, 2015). Therefore, the second phase of this research project was based on a qualitative analysis. Qualitative research is an umbrella term that covers a wide range of methods, which can include the use of case studies, interviews, focus groups, discourse analysis, process tracing, and archival research (Della Porta and Keating, 2008, 19). Case studies are a widely used research method in critical political analysis, and may be considered a form of “intensive” research that emphasis causal explanation in cases that explore individuals, social groups, organisations or countries (Sayer, 2000; Parr, 2015). The approach to a case study analysis based on CR allows for the identification of a specific phenomenon or event, which is subsequently followed by an examination of the “powers, liabilities, necessary and contingent relationships” that surround the phenomenon (Easton, 2010, 128).

The qualitative research process is based on reflexive progress: as data is gathered about the phenomenon, its surrounding context and potential relationships with other factors, the results from the collated data must be constantly referred back to the phenomena being examined, which is a key element of Critical Realist investigation (Easton, 2010, 128). The use of interviews, which are commonly used in social and political research, are also compatible with CR, as participants can be questioned on specific conjunctures as a means of developing a deeper understanding of causal explanations within those contextual settings (Smith and Elger, 2012). Additionally, the reflexive process and the focus on key events and causal mechanisms that link these events allows for the incorporation of process tracing into a case study analysis based on CR (Hall, 2013, 28). Therefore, the combination of these qualitative research methods allows for the identification of different causal mechanisms in different sites that can develop the transitive knowledge about a social phenomenon. The mechanisms identified in one case may also be analysed through a comparative analysis with other cases, which may allow for differences and similarities in causal mechanisms to be observed, which, in keeping with the reflexive research process, may also provide an additional insight across the cases (Bergene, 2007).



## Quantitative Research Design

The quantitative section of this project is based on a combination of descriptive statistics and regression analysis, where a series of time-series cross-sectional regression models were performed to test the hypothesis *as to whether there is a statistically significant negative relationship between changes in the engagement with mortgage finance and the changes in the wage share of GDP between 1979 and 2012 across the VORC in Denmark, Sweden, Britain and the USA*. The identification of any such relationship between these variables would suggest that it is plausible to accept there is an underlying causal mechanism between the two factors, while a retroductive qualitative analysis was performed to ascertain the public policy *formulation and implementation* processes that would need to be present to explain the presence (or absence) of such a mechanism in each case. Although this thesis has chosen to analyse and compare the British and Danish cases, the USA and Sweden were added to this quantitative analysis to corroborate or question the results of the British and Danish cases respectively. The USA is considered to belong to the same Liberal market VORC typology as Britain and is similarly aligned with the British case in terms of financial market liberalisation, sophistication and global connectedness (Schwartz and Seabrooke, 2008). The USA also has a similarly individualised system of wage bargaining as the UK (e.g. Hall and Soskice, 2001), all of which may influence the relationship between the distribution of mortgage credit and the wage share.

Denmark is considered part of the Corporatist VORC typology, while Sweden is linked to the Statist-Developmentalist VORC category (Schwartz and Seabrooke, 2008). Although Sweden and Denmark have been associated with different VORC, primarily due to the greater financial repression in the Swedish case, the two cases may be examined together as a coherent typology in housing systems, as observed by Ansell (2014, 400). Additionally, Sweden and Denmark have been identified as belonging to the same typology in various different typologies of comparative political economy, such as the co-ordinated market variety of capitalism (Hall and Soskice, 2001) and the Social Democratic welfare state regime (Esping-Andersen, 1990). The pooling of Sweden and Denmark into the same typology also allows for a comparison of the degree of housing commodification in each state, using the welfare state regimes (WSR) identified by Esping-Andersen (1990). In the liberal states of the UK and USA there is a greater degree of housing commodification than in social democratic states of Denmark and Sweden,

due to the prevalence of private housing markets over other forms of housing provision, which may be provided or more heavily regulated by the state (Esping-Andersen, 1990). Overall, the differentiated institutional structures identified by these typologies would suggest that the results from the British case may be different when compared to the Danish case, as Britain may be considered to have a more sophisticated and globally interconnected financial market than Denmark, and wage bargaining occurs at the level of the individual, whereas the focus is on collective bargaining in Denmark.

This econometric analysis consisted of eight models in total: The first two models performed an examination of the data pooled across the four cases belonging to the three VORC analysed in this project, which consisted of a random effects model and a fixed effects model. The random effects (RE) model (model 1) assumes that the variation across each VORC is random and is uncorrelated to the independent variables within the model, and was used to account for differences between states that may influence the dependent variable, which in this analysis may be related to the institutional configurations that surround wage bargaining, the welfare state, and GDP growth. Alternatively, the fixed effects (FE) model (model 2) was used to account for any potential country-level bias, by controlling for the time-invariant characteristics of variables that may influence the outcome of the regression results. Annual data was only available for the dataset between 1979 and 2012. The pooled panel dataset across the four cases consisted of 136 observations; however, the observations from an OLS regression of pooled time-series cross-sectional data may often not be considered independent and identically distributed, as the errors may be autocorrelated, heteroscedastic, or simultaneously autocorrelated and heteroscedastic, and there may also be the presence of contemporaneous correlation of errors (Plümper et al. 2005, 329). Therefore, to correct for these potential errors, a panel Prais-Winsten transformation model was used to establish robust panel corrected standard errors (PCSE) (Plümper et al. 2005, 349). The four PCSE models (1, 2, 7 and 8) were run using the AR1 autocorrelation structure to address problems of serial correlation, and assumed panel-level heteroscedastic errors to mitigate for heteroscedasticity.

The two panel data models were then followed by an ordinary least squares (OLS) regression analysis of each individual state, Denmark (model 3), Sweden (model 4), Britain (model 5) and the USA (model 6), albeit with a much smaller number of observations (34 each) than the panel data set. Such an analysis of each individual state was used to identify whether the

results from panel data regression models may be applicable and generalisable across each case in this project or whether there are any differences according to each VORC. Each individual case has 34 observations, and while this is a relatively low number of observations for a statistical analysis, it is large enough not to follow the t-distribution scale, and may be considered a reasonable sample size to be able to establish inferences about the cases. The seventh model consisted of a panel data model examining the liberal VORC countries only, the UK and the USA, to establish whether there is a generalisable relationship between outstanding mortgage debt and the wage share in liberal capitalism. The eighth, and final, model performed a pooled analysis of the non-liberal VORC, Sweden and Denmark. As the datasets for the seventh and eighth models consisted of two pooled cases each model had 68 observations, which may be considered a sufficient sample size for this examination. The regression analysis for each model was performed using the Stata software package, which is commonly used in econometrics and political statistical analysis at all levels of academic research.

Many positivist quantitative analyses of political analysis (e.g. King et al, 1994) focus on how specific variables can be linked to a theoretical underpinning, and any relationship between these variables demonstrated by the results of the quantitative analysis produces an “unambiguous statement” about the connection to the variables to an empirical outcome (Ragin, 2006, 634). The notion of causality when using a regression model may be understood as an examination of the effects of causes from an independent variable on the dependent variable (Holland, 1986). However, while a regression model may be able to identify the direction and probabilistic account of causality, the equation fails to articulate the relationship between variables. In the social sciences, theories may often be considered vague when it comes to specific descriptions of the contextual conditions for causality, as well as causal outcomes, and there is often an insufficient description provided of how causal conditions are directly linked to those specific outcomes (Ragin, 2006, 634). The research design of this project mitigates this issue through the use of qualitative comparative case studies as a complement, rather than an alternative, to the quantitative analysis, which may more broadly articulate and explain any deviations or similarities observed in the regression results (Ragin, 2006, 635). Therefore, the quantitative regression models have been used a testing device to identify whether or not there is any relationship between the distribution of mortgage credit and the declining wage share that occurs within, across, or between the cases of the UK and Denmark. Additionally, the qualitative

comparative case study analysis has been used to develop a retroductive explanation as to the conditions, or absence of causal conditions, that would be necessary to explain the quantitative results in each case.

## **Quantitative Data Collection**

An adequate pre-collated dataset was not readily available to examine the relationship between the wage share of GDP and mortgage credit growth in the USA, the UK, Sweden and Denmark between 1979 and 2012. Therefore, this thesis made a significant contribution by developing an original dataset compiling data on mortgage debt and the wage share from each country in this analysis. Data to construct the wage share variable, employee compensation and nominal GDP at factor cost for each case was obtained from the European Commission's annual macro-economic database (AMECO, 2015). The OMB variable is the only variable where data was collated from different sources: A complete dataset of British OMB data for the selected time period was not available from a single source, and the data was compiled from two sources. Data from 1979 to 1991 was obtained from the Council of Mortgage Lenders' (CML) compendium of housing finance statistics (CML, 1997, 88), and data from 1992 to 2012 was collected from the British Building Societies Association annual yearbook (Rex, 2013, 102). All OMB data for the Swedish case from 1979 to 2012 was obtained from the Swedish statistics office (Statistics Sweden, 2015); while the Danish OMB data from 1979 to 2011 was obtained from the Danish Central Bank (Abildgren, 2012), and the missing 2012 figure was obtained from the Association of Danish Mortgage Banks (*Realkreditraadet*, 2015). The OMB data for the USA between 1979 and 2012 was collected from the Federal Reserve Bank of St Louis (FRED, 2015) statistical database. The data for the unemployment rate for each country between 1979 and 2012 was also collected from the AMECO (2015) database. The right-left (RILE) political ideology index data for each country between 1979 and 2012 was collected from the Comparative Manifesto Project (CMP) database (version 2015a), which is a subjective qualitative content analysis of party election manifestos from domestic democratic elections (Volkens et al, 2015). The data was transformed to the weighted RILE index using the Stata do-file provided on the CMP website. The total number of observations obtained from the panel dataset was 136, which was broken down equally to 34 observations for each of the four individual cases, and 68 observations for

the last two models, which made for a balanced dataset. See appendix A for a version of this information, complete with sources, in table form.

### **Qualitative Research Design: Case Studies and Process Tracing**

Once the regression results had been obtained from the quantitative analysis, a focused comparative N=2 “most different” (cf. Przeworski and Teune, 1970) case study analysis between Britain and Denmark was conducted to develop an understanding as to the plausibility of the quantitative results found for each country. A case study may be defined as “the detailed examination of an aspect of a (sic) historical episode to develop or test historical explanations that may be generalizable (sic) to other events” and is a widely used form of analysis in International Political Economy and critical political analysis (George and Bennett, 2005, 27). This case study analysis may be considered “focused” in that it specifically examines the effects of financialisation, which has seen an increase in the distribution of mortgage credit, on the wage share in a delineated timeframe between 1979 and 2012 (George and Bennett, 2005, 106). It is common in comparative analyses of case study analyses to examine a small number of cases in which a specific outcome can be identified (Ragin, 1999, 1226). Therefore, the UK and Denmark have been selected as cases as they both have been characterised as having advanced financialised economies with high levels of mortgage debt relative to GDP, while there is *prima face* evidence that both have experienced an absolute reduction in the wage share of national income between 1979 and 2012. Where the quantitative regression models were used to identify whether there is a relationship between the two variables in each country, the British and Danish cases will be examined in greater depth to allow for the identification of the necessary conditions that would have made it possible for the results of each case to have happened (Ragin, 1999, 1226; Parr, 2015).

One significant issue with this comparative case study analysis was the potential for a selection bias, as cases were chosen on the basis that they share a specific outcome (George and Bennett, 2005, 51). Although this analysis will use dependent and independent variables that have similar outcomes and directions of movement, the UK and Denmark are often assigned to different typologies in the most prominent forms of comparative political economy, such as the VOC, WSR and VORC (Hall and Soskice, 2001; Esping-Andersen, 1990; Schwartz and

Seabrooke, 2008). Therefore, the cases of Britain and Denmark may be considered highly differentiated when it comes to significant areas of analysis such as political and economic institutional configurations, the construction and distribution of welfare state services, as well as housing and finance systems. Whilst there were similar outcomes on the dependent and independent variable in each case, there is no expectation that the results of the quantitative analysis will be the same, as the antecedent conditions within Britain and Denmark that have established such outcomes may be considered to be sufficiently differentiated, and any differences or similarities in the outcomes and conditions between the two cases may provide fruitful avenues of qualitative investigation for this research project. It is accepted that the results from this case study analysis may not be generalisable beyond these two specific cases; however, such an issue is mitigated by the use of a quantitative model in this project, which allows for the results to be applied more broadly within the typologies.

The method of process tracing is widely used in the examination of case studies in political analysis (George and Bennett, 2005). Process tracing can be used to establish an interpretation of the causal process underlying the effects of an independent variable on the outcomes of a dependent variable, through the identification of a causal chain of events and mechanisms within that chain (George and Bennett, 2005, 272; Trampusch and Palier, 2016, 14). The causal inferences established by the method of process tracing is not the same as the causal explanation reached by the use of quantitative probabilistic regression models (e.g. Holland, 1986). Alternatively, process tracing may be considered a means of developing a plausible causal explanation for the relationship between two variables (Trampusch and Palier, 2016, 14). Process tracing can also be used to establish an understanding of a temporally sequential series of historical events, where each event may be considered a key node that links causes and effects between other variables and events (George and Bennett, 2005, 300). In temporal sequences, process tracing is able to both illustrate and generate theory, but may also be used to test theory in a comparative case analysis (Falleti, 2016, 3-6).

Although this research design has used process tracing as means of identifying key temporal sequences, the retroductive explanations used to establish the plausibility of the relationship identified by each case in the quantitative analysis needed to go beyond purely tracing sequential temporal events (Beach, 2016, 2). Therefore, process tracing was used as a specific method to trace “causal mechanisms that link causes (X) with their effects (i.e.

outcomes) (Y)” (Beach, 2016, 1). In this specific understanding of process tracing, causal mechanisms can be more fully articulated as “a system of interlocking parts that transmits causal forces between a cause (or a set of causes) and an outcome”, which goes beyond a sequential examination of events (Beach, 2016, 3). Therefore, from a CR perspective, process tracing can be implemented to develop a retroductive assessment of the conditions that would need to be in place to develop the understanding of a relationship between two factors. However, there have been valid criticisms as to whether the use of process tracing is always understood by researchers claiming to use it as a method, and whether it is implemented correctly or legitimately (Hay, 2016). Process tracing is required when a credible mechanism must be identified or produced to explain a specific outcome, where the credibility of the causal mechanism can only be established through empirical research (Hay, 2016, 503).

This thesis has adhered to Hay’s (2016) definition of legitimacy through the deployment of process tracing as part of a mixed-methods research programme that specifically combines statistical analysis with Mill’s case study methods, which is considered one of the most promising means of implementing process tracing (Trampusch and Palier, 2016, 14). The starting node in this retroductive process tracing analysis was determined by the results of the quantitative regression models based on the identification or absence of any statistically significant relationship between an increase in the distribution of mortgage credit and the wage share in either of the cases. Once the relationship had been evaluated quantitatively in each case, then subsequent nodes were investigated using qualitative empirics. The use of the results from qualitative empirical research established the “interlocking parts”, connected within a causal chain and temporal sequence, that would need to be present in both public policy *formulation and implementation* processes to explain the presence (or absence) relationship identified by the quantitative results. The potential key nodal points that aided the identification of the causal mechanisms behind the identification of any (or no) relationship between the distribution of mortgage credit and the wage share in each state were linked to the series of material and ideological incentives for individuals to engage with economic structures, as well as the legal, political and economic institutional structures that may be considered modes of disciplinary behaviour regulation. Therefore, process tracing was used to examine whether the mortgage system in each case has been encoded as a Foucauldian micro-mechanism of power.

Although process tracing can be incorporated into a multi-method research design, it is

important to ensure that the ontological and epistemological foundational assumptions for each method allow for an appropriate synthesis between different methods (Trampusch and Palier, 2016, 14). In order to address this issue, this project has explicitly outlined how the quantitative and qualitative methods used in this research design are compatible with the critical realist ontological and epistemological framework outlined at the beginning of this chapter. Additionally, this analysis has explicitly identified and outlined the causal nodes in terms of specific structures and strategically situated agents, and linked them back to key aspects of the theoretical framework based on the Foucauldian-Marxist understanding of the SRA outlined in the previous chapter, as not to be ambiguous or “black-box” the causal process (Beach, 2016, 2). Therefore, process tracing was used in this project to identify key policy *formulation and implementation* (Q2) nodes as a means of evaluating the different possible systems of path-dependent causality variables within the political economy of Denmark and Britain, which led to the emergence and reproduction of specific structures in the financial sectors that are directly related to private owner-occupied housing.

### **Qualitative Research Method at the Operational Level**

The comparative case study analysis using process tracing relied on similar sources of qualitative data collection. The main source of data for the case studies was obtained using document analysis, where documents may be considered as any form of textual information that may be produced in digital, physically typed or handwritten form. Where possible, the documents examined were versions of the original text to ensure a single hermeneutic degree of freedom between the researcher and the text, to minimise the level of interpretation of the text, which could have been increased through the examination of a secondary form of analysis. The documents used in this analysis were predominantly obtained from secondary sources, which may be considered as unsolicited and independent of the researcher of this project. To maintain an appropriate degree of quality control, the documents were obtained from a wide range of reputable and readily available sources, which ensured that the information obtained from the documents was authentic, credible, and replicable. Most of the document data was collected from books, academic journals, the British and Danish governments and statistics offices, private firms and professional associations, as well as international organisations, such as the



International Monetary Fund (IMF) and the European Union (EU). Many of the documents from private and public organisations took the form of reports or white papers, which allowed for an understanding of the decisions behind the policy formulation surrounding mortgage finance to be developed in each country. Documents may also be considered a form of purposeful and directed discursive communication, which, in this analysis, included transcripts of speeches or interviews, which allowed for the assessment of the text in the context of “who is speaking to whom, for what purpose and under what circumstances” (George and Bennett, 2005, 145)

Documents were also used to identify the key nodal points and place them within both a sequential order and an interlocking system using process tracing. The temporally sequential process tracing analysis predominantly examined documents within a historical context, with the principal aim of establishing an ordered timeline of key events in both Denmark and the UK. Therefore, documents were examined for each case to establish the key government policies that were implemented between 1979 and 2012 that pertained to changes in the private housing and mortgage finance markets. These documents were selected from sources such as party manifestos, policy legislation passed by parliament, government white papers (including Treasury consultations on financial deregulation), as well as data sources that collated such information, such as books and academic articles (see appendix B for a description of the qualitative data sources). The documents were also analysed to establish effects and outcomes of policy decisions, and whether private and public bodies identified any key changes after the implementation of those policies (Q2). Additionally, the effects of policy changes were assessed using descriptive statistics that may highlight changes in the distribution of mortgage credit and the owner occupation rate in each state after certain policy measures were implemented.

Critical realist scholars look for demi-regularities, which can be understood as “rough trends or broken patterns in empirical data” and can be identified through the use of qualitative data coding (Fletcher, 2017, 185). Grounded theory is commonly used in qualitative document analysis (e.g. Yin, 2011), and can be described as “a systematic inductive, comparative, and interactive approach to inquiry and offers several open-ended strategies for conducting emergent inquiry” (Charmaz, 2008, 156). Although grounded theory has been used in CR studies to analyse and code the data (e.g. Oliver, 2012), it may not be considered compatible with a CR ontological perspective, as “it avoids active engagement with existing theory during the analysis process” (Fletcher, 2017, 186). Additionally, grounded theory is inductive, and is not compatible

with the retroductive reasoning used in Critical Realism, which places an emphasis on existing theories as opposed to the emphasis of theory creation in grounded theory (Fletcher, 2017; Yin, 2011). The documents were analysed in terms of content, and organised into categories (or codes) related to the second research question that focuses on policy implementation and formulation decisions in Britain and Denmark. The initial coding process began by sorting the data into two categories: organisational codes, which are broad topic-related codes, and theoretical codes determined from the theoretical framework of this project outlined in the previous chapter (Maxwell, 2012). The documents were analysed using the Nvivo software package, which is commonly used in qualitative social science research (Yin, 2011). The documents were coded in a hierarchical array from the most concrete to the most abstract concepts (Yin, 2011, 191-192). The most concrete concepts pertained to specific information such as which country the data related to (level 1) and government policy areas, such as housing policy, mortgage policy, the welfare state, deregulation (level 2). The most abstract concepts related to the theoretical framework of this paper, such as capital accumulation/economic growth (level 3); structure and agency (level 4); and Foucauldian governmentalities (level 5). Organising the document data in this format allowed for patterns in the qualitative to be observed, which were subsequently related to the results generated by the qualitative regression analysis.

While document analysis is a key source of data collection for this project, interviews were also conducted to gain an additional insight into the consequences and the motivations behind the implementation of key policies surrounding private housing and the distribution of mortgage credit (Trampusch and Palier, 2016, 14). Interviews can “yield rich insights into people’s biographies, experiences, opinions, values, aspirations, attitudes and feelings”, and were used in this project to obtain a specific understanding of the worldview of the interview subject regarding housing and mortgage policy in Britain and Denmark between 1979 and 2012 (May, 2001, 120; Kvale, 1996). There are three main types of interviews that can be used in political analysis research; structured, unstructured and semi-structured interviews (Leech, 2002). Structured interviews often use close ended questions, which can be useful when the researcher is already well-versed on the topics and categories being examined, and the main objective of the research is to assess how to categorise the responses of the interviewee (Leech, 2002, 665). Alternatively, unstructured interviews use open-ended questions, and are often used when the research has limited knowledge of the subject being examined, or a specific “insider perspective”

is needed. However, unstructured interviews can often be inconsistent, and diminish the potential for comparable and reliable data to be gathered (Leech, 2002, 665). Semi-structured interviews offer a middle path between structured and unstructured interviews, and predominantly use a specific set of open-ended questions, which “can provide detail, depth, and an insider’s perspective”, whilst simultaneously providing a suitable structure that will allow for a meaningful comparison to take place between the two cases (Leech, 2002, 665). Therefore, in both cases, this research project used semi-structured interviews to identify, clarify, and verify the key aspects of the case study analysis, as well as the nodal points outlined through the use of process tracing.

Semi-structured interviews with policy-making elites were conducted to assess the key motivations and rationales that have influenced policy formulation (Q2) surrounding housing and mortgage finance in Britain and Denmark between 1979 and 2012. Policy-making elites may be considered those who have been influential in the development of policy measures relating to housing and mortgage finance, and figures such as politicians, civil servants, political advisors, financial regulators and central bankers were targeted as interview subjects for this project. Semi-structured interviews are particularly useful when seeking the worldview of policy making elites, as the use of a specific set of open-ended questions provides the respondent with an opportunity to fully articulate their response to the question (Aberbach and Rockman, 2002, 674). Additionally, it is important to provide the policy-making elite with the opportunity to bequeath their expertise, as “(e)lites especially—but other highly educated people as well—do not like being put in the straightjacket of close-ended questions. They prefer to articulate their views, explaining why they think what they think” (Aberbach and Rockman, 2002, 674). Therefore, policy-making elites were interviewed to determine whether the British and Danish government promotion of private homeownership and the facilitation of mortgage credit may be linked to a specific policy goal or wider objective that goes beyond the state, and they were also used to evaluate the means and effectiveness of achieving such objectives.

In order to corroborate the results from the interviews with policy-making elites, the means and effectiveness of policy implementation (Q2) were also evaluated through the use of semi-structured interviews with representatives from mortgage lenders and professional mortgage associations in Britain and Denmark. Interviews with mortgage lenders were conducted to ascertain the motivations for potential borrowers to engage with financial institutions in order to

access private home-ownership, and whether lenders reinforced those motivations, as well as how mortgage lenders categorised and identified potential borrowers, and how they aimed to meet the needs of those potential borrowers. All of the interviews were recorded with the interviewee's permission, which allowed for a concentrated and focused interview to take place. The audio of each recording was transcribed in full and coded using the Nvivo software, which has been used extensively in political discourse analysis (e.g. Hay and Smith, 2005; Davies, 2009), and was used in this project as a means of identifying discursive patterns in the responses of the interview subjects (Richards, 1999).

### **Interview Data Collection**

There were three main topic areas on which the interviews were used to collect data, which were informed by the VORC typologies used in this analysis: (1) whether there was a specific preference for private owner-occupied housing in each country; (2) whether the government or mortgage lender had promoted a specific tenure type, and the motivations for doing so; and (3) whether the home was considered a financial asset by the public. These questions were further broken down into sub-categories, which are outlined in tables 1 and 2, and then coded in Nvivo using the same categories and hierarchies used in the document analysis. In each interview, follow-up questions were asked to allow the participant to discuss anything missed in the interview, and to see whether the participant would be willing to contact anyone in their professional network to participate in the study. Related derivative questions were also asked in the interview that pertained to the discussion, but they did not deviate from these main topics. The topics were kept the same to allow for a meaningful comparison of the results of the data collection between elite policy-makers, mortgage lenders and the working public. The target participants of this research project have been deemed as minimal risk subjects as they are over 18 years of age and the research topic is not a personal or sensitive issue. Additionally, all the original data collection conducted by this project was implemented in accordance with the ethical standards set by the King's College London research ethics committee, and the research material has been approved for use by the King's College London research ethics committee, which may be referred to using the internal REC reference number LRS-14/15-0897.

Topic	Question
1. Owner-occupied housing as a social norm	1. How important is private homeownership to the British/Danish public?
2. Government policy	2. Has the British/Danish government prioritised private homeownership over other forms of housing tenure?
	3. If so, what policies have been instrumental in promoting private homeownership?
	4. Are there any specific social groups that benefit most from current British/Danish government housing policy?
3. Housing as a financial asset	5. How important is the home as a financial asset to the British/Danish public?
	6. Has the British/Danish government promoted the home as a financial asset?
	7. Do you think that financial gains from private homeownership may be considered a viable substitute for wage growth in Britain/Denmark?
4. Follow-up	8. Can you think of any questions I should have asked or is there anything that you can think of that I have missed?
	9. Is there anything that you would like to add?
	10. Is there anyone in your professional network that you could recommend that I contact?

*Table 1: Elite Policy Maker Interview Topics and Questions*

Table 1 shows the standardised topics and questions that were posed to elite policy-makers that relate to whether private owner occupied housing could be considered a social norm and a financial asset, and whether government policy has influenced these areas. The objective of these questions was to ascertain whether the British and Danish governments had promoted owner-

occupied housing, establish their motivations for doing so, and whether the promotion of private housing could be linked to the understanding of the home as a financial asset in each country.

Topic	Question
1. Owner-occupied housing as a social norm	1. How important is private homeownership to the British/Danish public?
	2. What do you think the home means to a member of the British/Danish public?
	3. Does the meaning of the home tie into any of the specific narratives that are promoted by British/Danish lending institutions when promoting mortgage finance?
2. Government policy	4. Are there any specific social groups that benefit most from current British/Danish government housing policy?
3. Housing as a financial asset	5. How important is the home as a financial asset to the British/Danish public?
	6. In your professional experience, have you ever seen the home promoted as a financial asset in Britain/Denmark by a mortgage lender?
4. Follow-up	7. Can you think of any questions I should have asked or is there anything that you can think of that I have missed?
	8. Is there anything that you would like to add?
	9. Is there anyone in your professional network that you could recommend that I contact?

*Table 2: Mortgage Lender Interview Topics and Questions*

Table 2 lists the standard set of questions that were put to British and Danish mortgage lenders and professional mortgage associations, which relate to whether private owner occupied housing could be considered a social norm and a financial asset, and whether mortgage lenders had

sought to promote the home accordingly. The questions were arranged in the same three topic areas as the policy-making elite interviews, which allowed for the results of the interviews to be compared to the data collected from the other participants in this study.

## **Conclusion**

The objective of this methods chapter has been to outline the mixed-methods research design that was implemented by this project, which consisted of a quantitative regression model and a qualitative case study analysis of Britain and Denmark between 1979 and 2012 that used process tracing, and data collected from interviews. One of the main issues when developing a mixed-method approach is to ensure that the different methods are reconcilable ontologically and epistemologically, and this chapter began with a description of how each method used in this research design is compatible with a Critical Realist framework, which allows for a methodological synthesis between the quantitative and qualitative methods used by this project. The second section described the quantitative regression models that will be used to test the first hypothesis (H1) and the first research question (Q1) of this project, which sought to ascertain whether there is any meaningful relationship between the falling wage share and the expansion of mortgage credit in Britain and Denmark. The regression models were designed to test whether changes in the total outstanding mortgage stock, as proxy for the degree of engagement with mortgage finance, had any effect on the wage share of national income. Although this project only compared the mortgage and housing systems of Denmark and Britain, Sweden and the USA were included in the quantitative analysis to act as comparisons for each case, and the additional cases could also allow for a wider examination of advanced financialised capitalism. Once the regression models had been developed and implemented, the identification of any (or no) relationship between the distribution of mortgage credit and the wage share in Britain and Denmark was elaborated on through the use of a qualitative N=2 “most different” comparative case study between the two countries.

The case studies were used assess the second hypothesis (H2) of this research project, which seeks to understand whether the path-dependencies of mortgage finance have been structured as disciplinary devices to compel workers to trade present wage gains for future gains from their housing asset, and thereby consent to a falling wage share. Therefore, the case studies

examined the distinctive formulations of political and economic structures, as well as the mechanisms that encouraged citizens to engage with those structures, in each case. Different methods were used to evaluate the two remaining research questions: process tracing was used to identify key policy *formulation* (Q2) nodes to evaluate different possible path-dependent causality variables that may lead to the emergence and reproduction of specific structures in the financial sector and housing systems. The starting node for each of the case studies was determined by the quantitative analysis, then subsequent nodes were used to evaluate the plausibility of public and private incentives used to foster any (or no) relationship between wage growth and mortgage credit growth. To develop the case study analysis, potential key nodal points were identified as incentives for engagement with economic structures, such as government promotion of private home-ownership, and disciplinary mechanisms used to reproduce economic structures, including legislation punishing any exits from those economic structures. To assess the viability of each nodal point, data was gathered from a variety of sources, including archives, government white papers, as well as academic research papers and historical narrative accounts. Semi-structured interviews with policy-making elites in office between 1979 and 2012 were also conducted in both cases to provide an insight into the rationales behind the establishment of policies that have influenced wages and mortgage credit during this time.

In order to evaluate the means and effectiveness of policy implementation (Q2), semi-structured interviews were also conducted with mortgage lenders in Britain and Denmark to ascertain what drives potential borrowers to engage with financial institutions in order to access private home-ownership. The key interview questions focused on borrower motivations for home-ownership, and whether lenders reinforce those motivations, as well as how firms categorise and identify potential borrowers, and how they meet the needs of those potential borrowers. The overall aim of the interview questions with mortgage lenders was to derive an understanding as to whether housing has been successfully promoted as a means to access wealth gains, whether lenders reinforce this notion, and whether lenders act as a gatekeeper to provide those gains to homeowners. The integration of these three methods has allowed this research project to establish a mixed-methods approach to examine whether social and economic norms have been reshaped to establish and reinforce structural path dependencies in the advanced financialised capitalisms of Britain and Denmark.



## Chapter 4

### The Effects of the Distribution of Mortgage Credit on the Wage Share<sup>1</sup>

*“In the strange order of things, it is always insignificant causes that give birth to great events”*

Nikolai Vasilievich Gogol (1998, 141)

This chapter marks the beginning of the empirical contribution of this project, and will use a series of quantitative regression models to assess the first research question (Q1) of this project, which examines whether there is any meaningful relationship between the falling wage share and the vast expansion of mortgage credit across different varieties of capitalism. As both Britain and Denmark are considered to have highly liberalised mortgage markets and there is *prima facie* evidence that the wage share has declined in both countries (e.g. Stockhammer, 2013), this quantitative chapter will test the hypothesis *that there is a statistically significant negative relationship between changes in the engagement with mortgage finance and the changes in the wage share of GDP between 1979 and 2012 across the VORC in Britain and Denmark*. Britain and Denmark have been associated with different typologies of housing finance systems, and similar outcomes in such differentiated cases could suggest that there may be a generalisable relationship between mortgage credit and the wage share in advanced capitalism. Although this project will only compare the mortgage and housing systems of Denmark and Britain, Sweden and the USA have also been included in the quantitative analysis to act as comparisons for each case, as the additional cases may also allow for a wider examination of advanced financialised capitalism to support or refute such claims of generalisability. Therefore, as systems of housing finance may not be considered politically neutral, and the facilitation of mortgage credit is the main mechanism the state can use to intervene in the private housing market, testing for such a relationship in both cases will allow for the potential identification or renouncement of the state use of mortgage credit as a technique of power used to reduce the wage share of GDP.

The results of the quantitative analysis demonstrate that an increase in the distribution of

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<sup>1</sup> This chapter is an alternative version of an article that has previously been published in *Comparative European Politics* (see Wood (2016) for the full reference).

mortgage credit has a negative effect on the wage share in the liberal market of the UK between 1979 and 2012. Whilst conversely, the results also show that there is no significant relationship between mortgage debt and the wage share in the corporatist VORC (or social democratic welfare regime) of Denmark during the same time period. Therefore, the negative relationship between the increased distribution of mortgage credit and the wage share of national income, as postulated by the results from the analysis by Köhler et al (2015), may not be generalisable across advanced financialised capitalism. As a comprehensive examination of these divergent results is beyond the scope of a quantitative analysis, a qualitative N=2 “most different” comparative case study, using a Critical Realist retroductive framework, was deployed. Chapter five ascertains the conditions necessary for the relationship between the increased distribution of mortgage credit and the reduction of the wage share to be present in the British case, whilst chapter six examines why such a relationship is not present in the Danish case. Additionally, the results suggest that the differentiated structure of mortgage systems play a significant role in the wider political economy and generate significant variations between cases, which will be examined in a comparative political economy analysis in chapter seven. The first section of this chapter will outline the full empirical design of the regression models in this analysis, whilst the second section will describe the variables used in this analysis, as well as a justification of the transformations of the data that were implemented in each model. The third section performs a descriptive analysis of the data using tables and time-series graphs, which will be used to identify patterns in the data that cannot be analysed in the regression models. The fourth section outlines the findings from the different time-series regression models used in this analysis, which will be followed by a description of the data validation techniques used to substantiate the findings of each model. The final section of this chapter will consist of an in-depth discussion of the results through a comparative political economy analysis.

## **Empirical Design**

Based on the justification outlined in the theoretical framework of this project (chapter two), the Varieties of Residential Capitalism (VORC) typologies will be used to test the hypothesis across different housing and mortgage markets, and are primarily based on the institutional frameworks that have established variations of the owner-occupation rate and the ratio of mortgage debt to

GDP between states (Schwartz and Seabrooke, 2008, 256). In the VORC typologies the owner-occupation rate is used to identify the level of housing commodification in each state, whilst the ratio of mortgage debt to GDP indicates the degree of financial repression in each economy (Schwartz and Seabrooke, 2008, 248). The demarcation of these specific typologies may not be perfectly applicable or generalisable, yet the distinction between different housing markets established by the VORC provides a viable and valuable means of establishing a comparative account of different housing markets and their corresponding systems of mortgage finance. According to the VORC typologies, Britain and the USA have been identified as fitting the liberal market form of residential capitalism, which is characterised by high levels of owner-occupation and high ratio of mortgage debt relative to GDP (Schwartz and Seabrooke, 2008, 256). The liberal markets are highly commodified, with private housing used as a financial asset, and many citizens are priced-out of the private housing market, which has created inter-generational equity problems (Schwartz and Seabrooke, 2008, 256).

Alternatively, the corporatist Danish housing market is characterised by housing provision, both public and private, as a social right, with relatively lower levels of owner occupancy, but a high mortgage debt to GDP ratio (Schwartz and Seabrooke, 2008, 256). The Swedish statist-developmental market similarly considers housing as a social right, which is also provided by both the private and public sector, but with lower rates of owner-occupation than the corporatist and liberal markets (Schwartz and Seabrooke, 2008, 256). Additionally, the repression of financial markets in Sweden has limited the mortgage debt to GDP ratio in relation to the other cases in this quantitative analysis (Schwartz and Seabrooke, 2008, 256). There is another typology of the VORC, described as the familial market, which has a high owner-occupation rate, combined with a low mortgage debt to GDP ratio. However, a familial case (e.g. Italy) was not included in this analysis due to the lack of financial sophistication attributed to that specific typology, as the analysis of this project is limited to advanced financialised economies. 1979 was selected as the starting year for this comparative analysis of VORC as it marks the point where inflation targeting became the economic objective at the expense of full employment, denoting the decline of the era of Fordism and the rise of post-Fordist financialisation (Korpi, 2002; Bengtsson and Ryner, 2015).

This econometric analysis will consist of eight models in total; two time series cross-section panel data models that examine the pooled data from the three VORC, a random effects

model and a fixed effects model, which will then be followed by a time series model of each individual state; Denmark, Sweden, Britain and the USA. The seventh model will consist of a panel data model examining the liberal VORC countries only, the UK and the USA, while the eighth model will form a pooled analysis of the non-liberal VORC, Sweden and Denmark, as observed by Ansell (2014, 400). Sweden and Denmark have been identified as belonging to the same category in various different typologies of comparative political economy, such as the Social Democratic WSR (Esping-Andersen, 1990). The pooling of Sweden and Denmark into the same typology allows for a comparison of the degree of housing commodification in each state, using the WSR identified by Esping-Andersen (1990). In the liberal states of the UK and USA there is a greater degree of housing commodification than in the social democratic states of Denmark and Sweden, due to the prevalence of private housing markets over other forms of housing provision, which may either be provided or heavily regulated by the state (Esping-Andersen, 1990).

OLS regression models of pooled time-series cross-sectional data can suffer from autocorrelation, heteroscedasticity, or both simultaneously. Furthermore, there may also be the presence of contemporaneous correlation of errors (Plümper et al, 2005, 329). Therefore, to correct for these potential errors, a panel Prais-Winsten transformation model will be used to establish robust panel corrected standard errors (PCSE) (Plümper et al, 2005, 349; Beck and Katz, 1995). The four PCSE models (1, 2, 7 and 8) will be run using the AR1 autocorrelation structure to address problems of serial correlation, and will assume panel-level heteroscedastic errors to mitigate for heteroscedasticity. The first panel data model will be a random effects (RE) model, which assumes that the variation across each VORC is random and is uncorrelated to the independent variables within the model, whilst the second panel data model includes fixed effects (FE) to account for any potential country-level bias. The four subsequent models will provide a segregated examination of each country used in the panel data analysis, albeit with a much smaller number of observations, which may indicate whether there are any differences according to each VORC. The last two models will compare the liberal and social democratic welfare state systems to account for any differences between the levels of commodification of housing. The dependent and independent variables remain the same in each model.

## Data

The dependent variable in each model is the wage share of GDP, which is calculated using an employee compensation measure as the numerator, to fully account for wages and non-wage payments in-kind, such as pension and healthcare contributions (Kruger, 1999). GDP at factor cost is used as the denominator, as it can be divided entirely between employee compensation and gross capital shares (Kruger, 1999; Rognlie, 2015, 5). Capital depreciation could be included to account for the replacement costs for capital, which would establish a net value added measure of domestic product (NDP). However, the NDP variable is incompatible with the employee compensation measure used in this analysis (Bengtsson and Ryner, 2015, 6). Social transfers, such as pensions, may be considered to represent the costs of labour reproduction, and “if these are included, then so should the replacement costs for capital” (Wilensky 1975; Bengtsson and Ryner, 2015, 6). To account for this issue, albeit imperfectly, this analysis will use employee compensation as a share of GDP at factor cost as a measure, which ignores depreciation costs for both factors of production (Bengtsson and Ryner, 2015, 6). Alternatively, the social wage, which accounts for non-wage benefits in-kind from welfare services such as welfare transfer payments and public healthcare, was also considered as a potential dependent variable in this analysis to account for the role of the welfare state in each case. However, much of the social wage data is collected at the micro-level from household surveys, which is not compatible with an aggregate macro-level examination of the distribution of national income (Sefton, 2002). Therefore, an employee compensation measure of GDP will be used to examine the wage share in this analysis.

There are three independent variables used in this analysis to refine the accuracy of the model specification according to the “rule of three” (ROT) (Achen, 2002, 446). Although the models in this analysis may be considered underspecified, the results will be compared with a more comprehensively specified model to ensure the validity of the results generated in this analysis. The number of variables has also been limited to account for the reduced number of observations in the individual case models, which allows each model to use the same number of independent variables and provides a valid means of comparison between models. The key independent variable that is used as a proxy to examine the engagement with mortgage credit in each VORC is the total outstanding mortgage balance (OMB), which accounts for new mortgage loans as well as the reduction of mortgage balances paid off by borrowers. Alternatively, a

specific residential mortgage lending variable could have been used. However, many of the sources (e.g. Hypostat) do not have data coverage for the whole time period of this analysis. Additionally, OMB data is used by professional analyses of residential mortgage lending (e.g. the UK Building Societies Association (Rex, 2013)); therefore, the OMB data will be used by this analysis. The OMB variable has been transformed using a natural logarithmic scale to examine the growth of the volume of the mortgage stock in each economy. The coefficient generated using the natural-log scale is interpretable as a close approximation of the percentage change, which is relevant to this analysis (Gelman and Hill, 2007, 60-61). The use of such a natural log technique is widely used in econometric empirical work, including economic projects undertaken by government bodies (e.g. Mawson, 2002, 5).

The second independent variable in each model is the unemployment rate, which will be used as a proxy for wage bargaining power (Dünhaupt, 2013, 11). The unemployment rate is thought to be a key determinant of wages in labour economics, and is included to account for the effects of changes in wages from the overall labour supply, which is considered to have a negative relationship with wage growth (Clark and Hyson, 2000, 1; Ehrenberg and Smith, 2009, 513). Although the different wage bargaining and welfare state structures suggest that there would be different results for the unemployment variable between the liberal and non-liberal cases, an increase in wage bargaining power is positively linked to an increase in the wage share (Bengtsson and Ryner, 2015). The third independent variable examines the ideological centre of gravity of each parliament to account for the different political institutional environments in each VORC, based on the mean right-left (RILE) position of each party that ran in each election, weighted by the vote share each party received (Gross and Sigelman, 1984, 467). The ideological centre of gravity for parliament has been included as a means of accounting for the influence of opposition policies as a counter-acting force that limits the implementation of policies that merely suit the political group in control of the institutions of the state. There have been criticisms of CMP database (e.g. Gemenis, 2013); however, the data generated by the CMP has been widely cited, and the RILE scale established by the CMP is also comparable to several independent right-left scales, which suggests that the CMP may be considered a widely accepted source (Laver, 2014, 217).

An inflation variable, measuring the change in the general price level, could have been included to account for the effects of the cost of living on employee compensation, which may

have influenced the wage share of national income. However, such a variable as the way inflation is measured has changed over time in different countries (i.e. Britain's shift from RPI to CPI in 1996), which has posed a challenge to collecting consistent CPI data for the time period under analysis. Alternatively, one could use the RPI measure of inflation, but that includes mortgage interest costs, which may interfere with the outstanding mortgage balance variable, leading to inaccurate results. Additionally, many analyses of the wage share use nominal variables, and inflation has not been considered a major cause of changes in the wage share of GDP (e.g. Stockhammer, 2013). Therefore, the variable was excluded from this analysis to maintain the efficient model specification using the ROT.

### Descriptive Analysis

Variable	Country	Obs	Mean	Std. Dev	Min	Max
Wage Share	Denmark	34	60.18	1.48	57.58	64.09
	Sweden	34	58.14	2.09	53.72	63.73
	UK	34	58.77	2.08	54.66	63.97
	USA	34	56.06	1.18	53.7	58.15
	Total	136	58.29	2.29	53.7	64.09
OMB (ln)	Denmark	34	27.49	0.69	26.26	28.53
	Sweden	34	26.93	0.95	25.1	28.43
	UK	34	26.61	1	24.53	27.87
	USA	34	29.23	0.76	27.88	30.32
	Total	136	27.56	1.33	24.53	30.32
Unemployment	Denmark	34	6.16	1.63	3.4	9.6
	Sweden	34	5.63	2.73	1.6	9.9
	UK	34	7.55	2.16	4.6	11.2
	USA	34	6.42	1.64	4	9.7
	Total	136	6.44	2.18	1.6	11.2
RILE Index	Denmark	34	1.92	9.41	-11.13	12.56
	Sweden	34	-0.62	10.28	-9.89	21.88
	UK	34	3.94	5.04	-3.02	10.75
	USA	34	12.41	7.23	-8.61	20.86
	Total	136	4.41	9.52	-11.13	21.88

*Table 3: Descriptive Statistics 1*

Table 3 provides a set of descriptive statistics for Denmark, Sweden, the United Kingdom and the USA between 1979 and 2012: The mean wage share of GDP in Denmark (60.18%) is higher than in Britain (58.77%), Sweden (58.14%) and the USA (56.06%), and the USA has the lowest

standard deviation, suggesting that there are smaller fluctuations around the mean value of the wage share. The difference between the minimum and maximum values of the natural log of the OMB variable shows that the UK has seen the largest growth in the mortgage stock between 1979 and 2012 (3.34). The Swedish mortgage stock has grown at a very similar rate (3.33). The growth of the mortgage stock in the US (2.44) has grown at a much lower rate than the British and Swedish cases, but still more than the Danish case (2.27). Additionally, the mean value of the OMB variable is similar between the British (26.61) and Swedish (26.93) cases, yet both have lower values than both Denmark (27.49) and the USA (29.23). Overall, the analysis from table 3 demonstrates similar results for the main variables of the wage share and OMB stock growth in the British and Swedish cases, which suggests that they may yield similar results in the regression analysis, and may challenge the VORC typologies. Sweden has the lowest mean unemployment rate between 1979 and 2012 (5.63%), while the UK has the highest (7.55%), followed by the USA (6.42%) and Denmark (6.16%). According to the scale of the RILE index, positive numbers indicate a right-wing ideological centre of gravity in parliament, while negative numbers suggest a left wing centre. The analysis of the weighted RILE index suggests that Sweden has had the most left-leaning political ideological centre of gravity as a mean average, with a score of -0.62, while Denmark (1.92) and Britain (3.94) have both had a more right-leaning political system. The higher standard deviations of the Danish and Swedish cases suggests there have been several shifts in the ideological centre of gravity in both parliaments, which may be linked to the political systems present in both countries that lend themselves to coalition government formations, and allow for more marginalised parties to take part in the political process. Additionally, both Denmark and Sweden have multiparty political systems, which lead parties to have less incentive to converge on the ideological centre ground in comparison to two-party systems, such as the UK and USA (Downs, 1957, 143). In contrast, the mean US score of 12.41 suggests that the US political system is very strongly right wing in comparison to the other cases in this analysis, which highlights the uniqueness of the US political system in that there has been an absence of a genuine “left” political party since the election of Ronald Reagan in 1981.



Variable Changes between 1979 and 2012							
	Nominal GDP	Employee Comp	OMB Stock	Wage Share of GDP	OMB Share of GDP	Unemploy -ment	RILE
UK	785.69%	731.71%	2807.61%	-4.31 pp	62.80 pp	3.3 pp	9.74
DK	506.29%	503.50%	970.63%	-0.34 pp	73.33 pp	2.9 pp	-12.93
SE	683.64%	643.35%	2795.10%	-3.76 pp	57.21 pp	5.9 pp	-1.97
US	623.60%	581.13%	1042.41%	-3.92 pp	33.40 pp	2.3 pp	19.3

*Table 4: Descriptive Statistics 2*

Table 4 depicts an alternative set of descriptive statistics for each case between 1979 and 2012: In the UK, nominal GDP increased by 785.69 per cent, significantly higher than either Sweden (683.64%), the USA (623.60%) or Denmark (506.29%). However, in each case, employee compensation increased at a lower rate than nominal GDP, which has led to an absolute decline in the employee compensation share of GDP in each country. Between 1979 and 2012, Denmark has shown the smallest decline in the employee compensation share of GDP with a reduction of 0.34 percentage points, whilst both the USA and Sweden have faced much larger declines of 3.92 and 3.76 percentage points respectively. However, the largest decline in the wage share of GDP out of these cases was Britain, with a decline of 4.31 percentage points. These descriptive statistics may also demonstrate significant patterns when examined graphically:

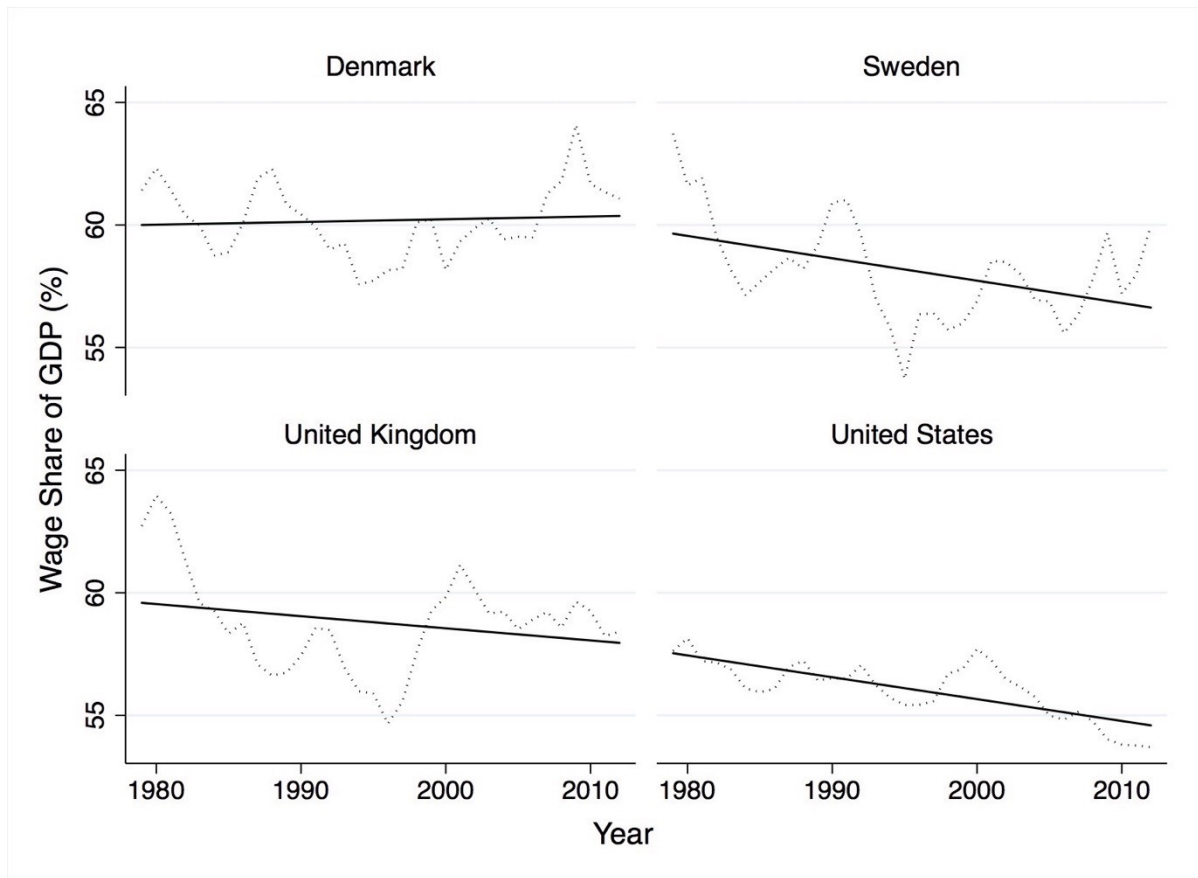


Figure 1: Employee compensation share of GDP with trend line.

Figure 1 examines the changes in the employee compensation share of GDP between 1979 and 2012 in the UK, Sweden, the USA, and Denmark. In Britain, there was an initial increase in the wage share of GDP after 1979 that subsequently declined from 1980 until 1996, but from 1997 to 2001 there was a significant recovery in the wage share. Over the whole period, the average wage share of GDP in Britain has been decreasing, as demonstrated by the negative linear trend-line. The Swedish case also demonstrates a negative linear trend line, but at a steeper gradient than the British case. The period between 1991 and 1995 shows a sharp decline in the wage share of GDP, which has occurred during a period of deep financial crisis in Sweden; however, the employee compensation share of GDP has increased from the low of 1995 to 2012. In a similar pattern observed in the British and Swedish cases, the US data also shows a negative trend line for the wage share of GDP. However, there is much less fluctuation in the wage share between 1979 and 2012, which was posited by the relatively small standard deviation figure. In the Danish case, the lowest point of the employee compensation share of GDP came in the mid-

1990s, which then increased to reach a peak in 2009, just after the GFC, followed by a subsequent decrease. Although the employee compensation share of GDP in Denmark decreased by 0.34 percentage points between 1979 and 2012, the slightly positive linear trend line in figure 1 suggests that, on average, the employee compensation share of GDP has actually been on an upward trend in Denmark over this period, which is contrary to the other cases in this analysis. There is a steep decline in the wage share of GDP in Denmark between 2008 and 2012. Therefore, the overall reduction in the employee compensation share of GDP observed in Denmark between 1979 and 2012 may be due to the GFC, rather than a general trend, as observed in the UK, USA and Sweden.

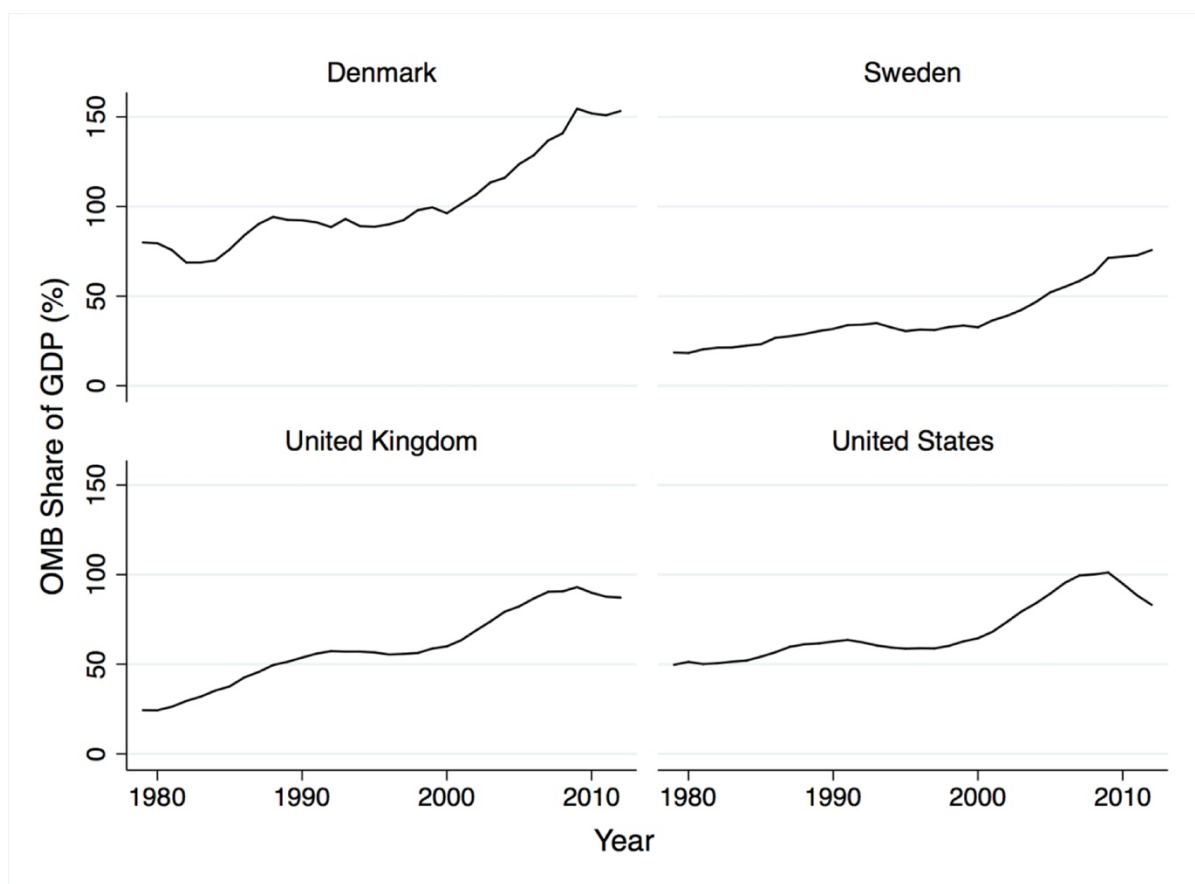


Figure 2: The OMB share of GDP.

Figure 2 demonstrates the differences in the OMB share of GDP between each case. An examination of the 2012 mortgage debt to GDP ratios of each country show that Denmark was the most leveraged state with a level of mortgage debt at 153.29 per cent of GDP, followed by

the UK (87.21%), the USA (83.14) and Sweden (75.74%). The UK and the US have similar mortgage debt to GDP ratios, but these figures are dwarfed by the Danish figure. The largest increase in the mortgage stock between 1979 and 2012 occurred in the UK (2,807.61%), which corresponds to a 62.80 percentage point increase in the OMB share of British GDP. The Swedish mortgage stock increased by a slightly lower amount than Britain (2795.10%) during the same time period, which led to a 57.21 percentage point increase in the OMB share of GDP. The USA and Denmark had much smaller relative increases in the mortgage stock than the UK or Sweden: In the US, OMB grew by 1042.41 per cent, leading to a 33.40 percentage point increase in the OMB share of GDP, whilst Denmark had the smallest increase in mortgage stock (970.63%), but the highest increase in the mortgage stock share of GDP (73.33 pp). In each case, the increases in OMB as a share of GDP vastly outpaced employee compensation growth, and the main increases in mortgage stock all occur after 2000. This increase in mortgage debt coincides with the reduced interest rate environment after the synchronised monetary expansion implemented by central banks to address the East Asian financial crisis and the vast increase in demand for certain mortgage-backed securities as a form of government-guaranteed debt (Diamond and Rajan, 2009; IMF, 2014a, 18).

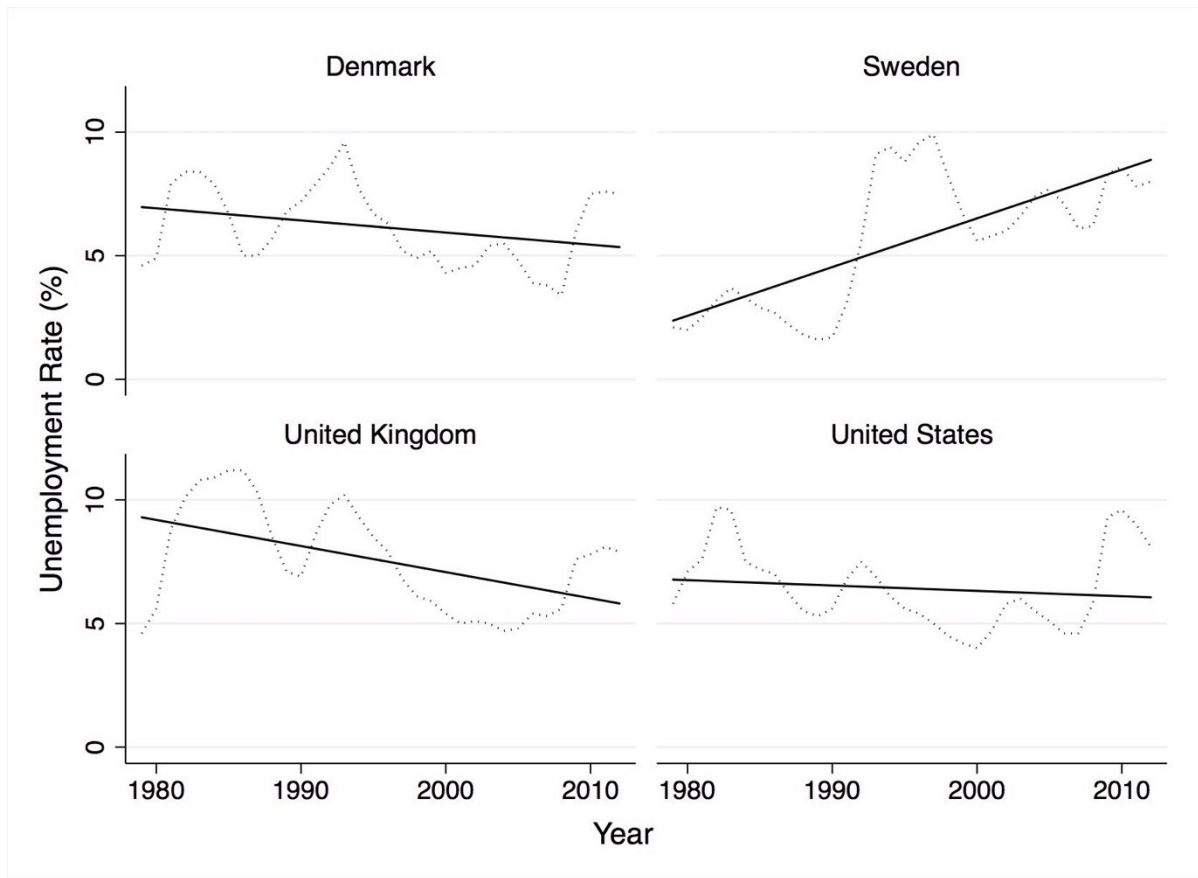


Figure 3: Unemployment rate with trend line.

Figure 3 shows the changes in the unemployment rate in Britain, Denmark, Sweden and the USA between 1979 and 2012. Each country in this analysis has seen the absolute value of the rate of unemployment increase, with the largest increase in Sweden (5.9 pp), followed by the UK (3.3 pp), Denmark (2.9 pp) and the USA (2.3 pp). However, the negative trend line found in the Danish, British and US cases suggests that, on average, unemployment has been falling in each of these countries during this time period. Additionally, the post-2008 increase in the unemployment rate that occurred in each of these cases may just be a structural adjustment in each of the economies in the aftermath of the GFC. The only case to have a positive unemployment rate trend line is Sweden, which is largely due to the rapid increase in the unemployment rate that occurred during the 1990s recession. The recession marks a point in Swedish government policy where full employment was no longer considered the central economic objective, as Sweden decided to implement a series of IMF-style restructuring measures that placed primacy on other economic factors (Ryner, 2002). Subsequently, the

unemployment rate in Sweden has not recovered to levels seen before the 1990s recession.

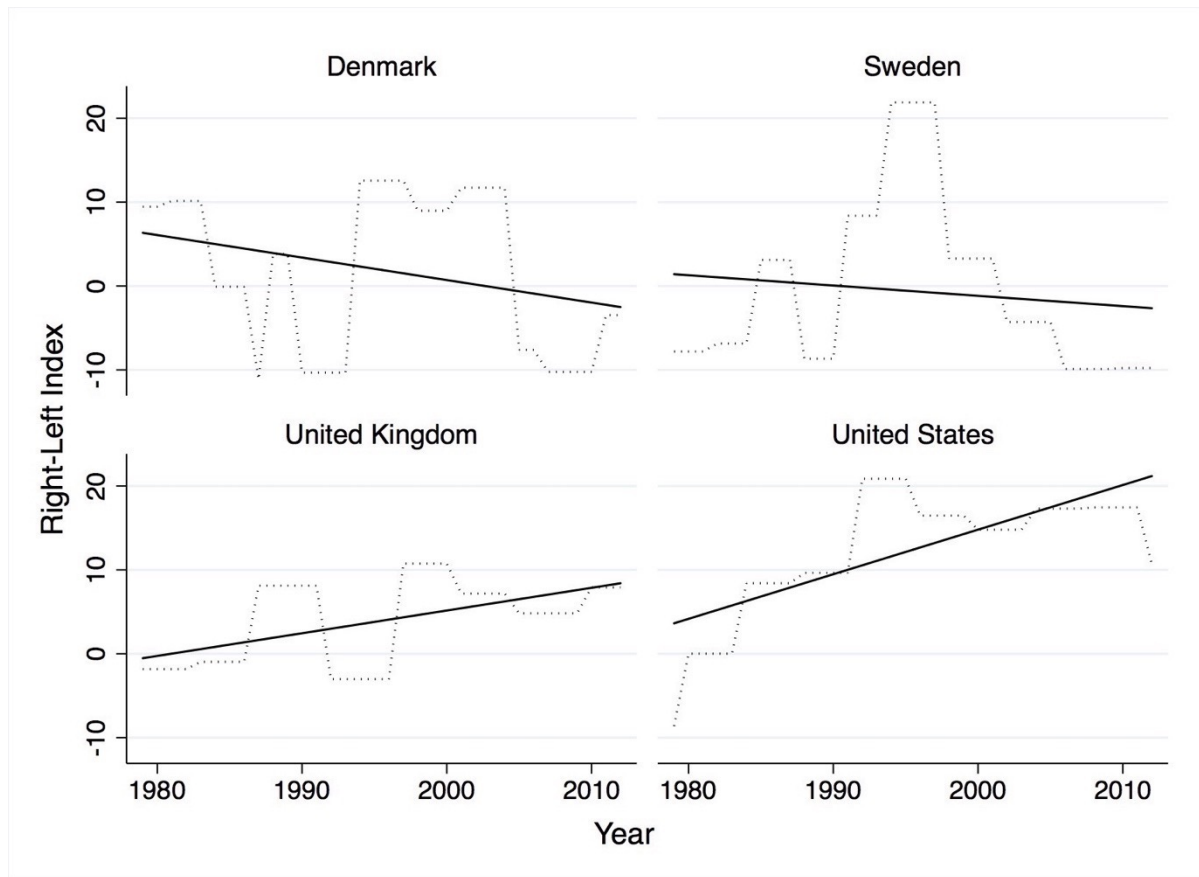


Figure 4: Changes in the weight mean RILE index with trend line. Source: Volkens et al (2015).

Figure 4 shows the changes in the ideological centre of gravity of each parliament in Britain, Sweden, the USA and Denmark between 1979 and 2012. The Danish and Swedish cases have similar results, as in both cases, the ideological centres of gravity in parliament have shifted from the right towards the left since 1979. The gradient of the trend line in the Danish case is steeper than the gradient of the Swedish case, which suggests that Denmark has made a more extreme parliamentary ideological shift than Sweden between 1979 and 2012. Alternatively, the UK and the USA have similar results to one another, but are distinct from the Danish and Swedish cases. In the UK the ideological centre of gravity has moved from a slightly leftist position to the right, which is largely due to the Labour Party's transformation into New Labour under Tony Blair. In the case of the USA, there has been an even more extreme political shift, which occurred from a left leaning government formation under Jimmy Carter, to a strongly conservative parliamentary

formation starting with the Reagan administration. In the case of the USA, figure 4 suggests that the parliament has become increasingly right leaning during the time period from 1979 to 2012, despite having two Democratic Party Presidents in Clinton and Obama, who would be considered more left-leaning administrations.

## **Findings**

Table 5 provides estimates of the coefficients from the eight regression models. The signs of the coefficients may be accepted as accurate representations of the direction of the substantive effects of the relationship between the two variables. As each model uses a non-linear independent variable to measure the OMB in each state, the coefficients may only provide reliable information as to the direction and the statistical significance of the relationship between OMB and the wage share of GDP, which is of more use to this analysis than the predictive capacity of the coefficient values (Martin and Stevenson, 2010, 41; Dana and Dawes, 2004). The first column of table 5 demonstrates the results of the random effects PCSE regression (model 1). This shows that the positive growth in mortgage credit across the different VORC is statistically significantly negatively related to the wage share of GDP, and allows the null hypothesis to be rejected. The other two variables in the first model, the unemployment rate and the weighted RILE index, both have negative coefficients; however, neither of the effects of these two variables may be considered statistically significant from zero. The results from the second model, which includes fixed effects to account for the country-level differences, shows similar results to the first model in that there is a statistically significant negative relationship between an increase in mortgage credit and the wage share of GDP, which also allows for the null hypothesis to be rejected. The lower coefficient value of the OMB variable in the FE model suggests that the effect of mortgage credit on the wage share is reduced once the country-level effects are taken into account. The unemployment rate variable also has a negative coefficient and is statistically significant, which means that a decrease in wage bargaining power has a negative effect on the wage share of GDP across the cases. The weighted RILE index also has a negative coefficient and is statistically significant; therefore, the wage share of GDP decreases as the ideological centre of parliament shifts to the right.

Model	(1) Random Effects	(2) Fixed Effects <sup>†</sup>	(3) Denmark	(4) Sweden	(5) UK	(6) USA	(7) Liberal VOWC (RE)	(8) S. Democratic VOWC (RE)
Mortgage Stock (ln)	-0.9462*** (0.2216)	-0.7218*** (0.2429)	-0.2875 (0.4235)	-0.4676 (0.6366)	-1.1528*** (0.3896)	-1.1359*** (0.2449)	-1.1510*** (0.1962)	-0.0964 (0.5481)
Unemployment Rate	-0.1519 (0.0865)	-0.2134*** (0.0790)	-0.2241 (0.1482)	-0.2831 (0.2141)	-0.5405*** (0.1080)	-0.3005*** (0.0710)	-0.2200** (0.0953)	-0.1980 (0.1396)
Right-Left Index	-0.0246 (0.0192)	-0.0350** (0.0179)	-0.0720** (0.0236)	-0.0634 (0.0472)	-0.0509 (0.0952)	-0.0177 (0.0291)	-0.0057 (0.0283)	-0.0187 (0.0236)
Constant	85.6469*** (6.2109)	81.4914*** (6.6946)	69.6032*** (12.0720)	72.2835*** (16.1701)	93.7303*** (10.4086)	91.4169*** (6.7068)	91.1604*** (5.5899)	63.2870*** (14.7603)
Observations	136	136	34	34	34	34	68	68
R-squared	0.9483	0.9511	0.1988	0.4711	0.3695	0.7157	0.9676	0.9345
Number of Groups	4	4	-	-	-	-	2	2

*Table 5: Results of the PCSE and OLS analysis of the effects of mortgage credit growth on the wage share of GDP*

Standard errors reported in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.10

<sup>†</sup> Coefficients for country dummies are not reported



## Individual Country Results

Models 3 through 6 segregate the pooled data into an analysis of their respective countries, and in each case, there is a negative relationship between an increase in mortgage credit and the wage share of GDP; however, the statistical significance of that relationship is different between the liberal and non-liberal VORC. The results from the corporatist market of Denmark (model 3) show that there is no statistically significant relationship between mortgage credit growth and the wage share. Also, there is no significant relationship between the unemployment rate and the wage share in the Danish case; however, the weighted RILE index variable was statistically significant from zero, and the negative direction of the coefficient for the RILE index shows that the wage share of GDP decreases as the ideological centre of parliament shifts to the right in Denmark. The results from the statist-developmental market of Sweden (model 4) also show that there is no statistically significant relationship between mortgage credit growth and the wage share. There is also no significant relationship between the unemployment rate and the wage share. Additionally, there is no significant relationship between the weighted RILE index and the wage share of GDP in the Swedish case.

The models for the UK (model 5) and the USA (model 6) display very similar results to one another, but different results from the Danish and Swedish cases. In the UK and the USA models there is a statistically significant negative relationship between an increase in mortgage credit and a decrease in the wage share of GDP, which allows the null hypothesis to be rejected in both cases. The direction of causality is of importance between these two key variables, and in both the British and US models the null hypothesis that the mortgage credit variable does not Granger-cause the changes in the wage share of GDP can also be rejected, which provides further evidence for a causal relationship between the increase in mortgage credit and the decrease in the wage share of GDP observed by the regression results in models 5 and 6. The unemployment variable in both models also has a statistically significant negative relationship to the wage share, which suggests a link between a decrease in wage bargaining power and a reduction in the wage share in both Britain and the USA. The weighted RILE index variable was not statistically significant in either model 5 or 6. Therefore, the ideological centre of parliament has no meaningful effect on the wage share in either the USA or Britain. The divergent results between the different VORC models means that there can be no single effect that is common to every case. Therefore, the fixed effects model (model 2) will not be used further in this analysis. The strong similarities between the

results of the liberal British and US models, and the non-liberal Danish and Swedish models, suggest that comparing the results of the pooled liberal VORC to the pooled non-liberal VORC, in line with the VOWC literature, may provide an insight into the overall pooled data models.

### **Welfare State Regime Results**

Model 7 examines the pooled data for the liberal WSR cases, Britain and the USA, and as in both individual cases, there is a statistically significant negative relationship between the increase in mortgage credit and a decrease in the wage share of GDP. The range of potential coefficient values maintains a negative value between -1.9145 and -0.3875 at a 99.99 per cent confidence interval, which provides strong evidence for the rejection of the null hypothesis in the liberal cases. As in models 5 and 6, there is a statistically significant negative relationship between the employment rate and the wage share of GDP, which shows that decreases in wage bargaining power places downward pressure on the wage share in liberal capitalism. There was no statistically significant relationship between the weighted RILE index and the wage share in model 7, which is congruent with the results in the individual subsetting models. Model 8 examines the pooled data for social democratic WSR (or the non-liberal VORC) in this analysis, Denmark and Sweden. While the coefficient for the mortgage credit variable does have a negative sign in model 8, the relationship between OMB and the wage share is not statistically significant from zero. There was also no statistically significant relationship between either the unemployment rate or the RILE index and the wage share of GDP in model 8. The analyses of models 7 and 8 suggest that the results from the liberal WSR may act as a source of bias in the overall pooled data results in this analysis (models 1 and 2), and there is no single generalisable relationship between the diffusion of mortgage credit and the wage share of GDP across the VORC. Therefore, there is a specific set of circumstances inherent to liberal capitalism that creates an environment where increases in mortgage credit lead to an overall reduction in the wage share of GDP, which is not present in the other VORC or WSR examined in this analysis.

## **Data Validation Techniques and Diagnostic Tests**

A Levin-Lin-Chu test was run on each variable in the pooled dataset to test for the presence of unit root, and in each case the null hypothesis that all panels contain a unit root could be rejected, which suggests that the panels are stationary for each variable. A cointegration test was also run for the key variables in the pooled data models, the wage share of GDP and OMB, and the tests reject the null hypothesis of no cointegration, which suggests that there is a stable relationship between the key variables in this analysis. Post-regression diagnostic tests were performed on the four OLS models pertaining to the individual VORC (models 3-6), where each model was tested for the normality of the residuals, heteroscedasticity, serial correlation and multicollinearity. In each case the residuals were distributed normally, and each variable in each case had a VIF score of less than 5, which demonstrates that there is an absence of multicollinearity in the models (Belsey et al, 1980). A Breusch-Godfrey test was run for each OLS model to test for serial correlation, and the results show that in each case the null of no serial correlation must be rejected, therefore, first order autocorrelation (AR1) is present in each model. A test for heteroscedasticity was run on the OLS models and in each case, except for the British case (model 5), we fail to reject the null hypothesis of homoscedasticity being true; therefore, it can be stated with at least 95 percent certainty that the errors are homoscedastic in the Swedish, Danish and US models, and are drawn from a distribution with a constant variance. To account for the serial correlation in each model and heteroscedasticity of the British case, each individual model was re-run to include robust standard errors, which are included in the results table. As stated in the empirical design, the results from the pooled data models (1, 2, 7 and 8) were obtained using the AR1 autocorrelation structure and the assumption of panel-level heteroscedastic errors to address problems of serial correlation and heteroscedasticity respectively. Each of the OLS models were also run using the bootstrap resampling method, which replaces the unknown population distributions with the known empirical distributions originated by the regression to establish precise statistical estimates that allow for robust hypothesis testing using relatively few assumptions (Chernick, 2008). The bootstrap models were re-run with 2,000 repetitions, and each variable retained its statistical significance as reported in the results section (table 5), with identical parameter estimates to the non-bootstrap models. Diagnostic tests were also run for each bootstrap model with results that were similar to the corresponding non-bootstrap models above. These bootstrap models, and the subsequent

diagnostic tests performed on them, suggest that the results from the individual VORC models (models 3 to 6) may be considered valid and robust.

### Expanded Model Specification

Specification Model	(1) With Financial Reforms	(2) Without Financial Reforms
Mortgage Stock (ln)	-1.1393*** (0.4112)	-1.3907*** (0.4315)
Unemployment Rate	-0.2307*** (0.0861)	-0.2580*** (0.0778)
Right-Left Index	-0.0254 (0.0176)	-0.0479*** (0.0183)
Technological Change	3.75e+06*** (6.75e+05)	3.48e+06*** (6.50e+05)
Labour Productivity	0.0123 (0.0459)	0.0308 (0.0430)
Export Share of GDP	-0.2419*** (0.0570)	-0.2196*** (0.0525)
FDI Inflows	-0.0742 (0.1804)	0.0232 (0.1844)
Financial Globalisation	2.0438*** (0.4121)	1.6104*** (0.4019)
Financial Reforms	-5.141** 2.4343	- -
Constant	127.3303*** (11.4368)	124.3340*** (11.3562)
Observations	120	96
R-squared	0.9792	0.9750
Number of Groups	4	4

Table 6: Specification model results

Standard errors reported in parentheses

\*\*\* p<0.01, \*\* p<0.05, \* p<0.10

Although the models developed in this paper have sought to adhere to Achen's (2002) ROT to refine the accuracy of the model specification, the literature has identified key variables that may influence the formation of the wage share that were not included in the regression models. Therefore, a wider specification model has been developed to test the validity of the results of the refined models used in this analysis. Technological change and globalisation have been identified as key determinants of the wage share of national income (IMF, 2007a). Technological change has been modelled using the capital-labour ratio, which is measured

using the logarithm of net capital stock divided by the number of persons employed in domestic industries, and the data was obtained from the AMECO database (Stockhammer, 2013, 21). Exports as a share of GDP, and foreign direct investment (FDI) inflows as a share of GDP have been used as proxies for globalisation, and this data was obtained from the World Bank (2015) (Stockhammer, 2013, 20). Labour productivity has also been identified as a significant causal factor in the formation of the wage share of national income (e.g. OECD 2015a, 7), which can be measured in terms of GDP per hour worked, and the data was obtained from the OECD (2015b). The post-Keynesian analysis of financialisation is measured in terms of financial globalisation, which is the logarithm of external assets plus external liabilities divided by GDP, and as per Stockhammer (2013) the data was obtained from Lane and Milesi-Ferretti (2007). The deregulation of the financial sector is another way to account for the financialisation of the economy, which has been modelled using the summary financial reform index developed by Abiad et al. (2008). The financial reform dataset only accounted for years up to 2006, therefore, specification models with and without this variable were included to maximise the number of available observations and degrees of freedom. Table 6 shows the results of the specification models, and in both cases the sign and significance of the OMB variable is consistent with the results from the main models used in this analysis, which is all that is necessary as the variable has been converted to a natural log. Therefore, one may conclude that the efficient model specification in this analysis, according to Achen's ROT, may be considered valid.

## **Discussion**

The results from the individual and pooled data regression models of the liberal markets of the UK and the USA suggest that the state facilitation of access to mortgage credit redistributes the share of national income from wages towards capital in liberal capitalism. The results from this analysis do not suggest that the diffusion of mortgage credit is the sole explanation for the reduction of the wage share in the liberal markets; rather, it is that the mortgage credit channel of financialisation may be considered a significant technical mechanism, facilitated by the state, which reinforces the conditions for capital accumulation at the expense of waged labour and reproduces a key Marxist power relation in liberal capitalism. The absence of any significant relationship between the distribution of mortgage credit and the wage share in the non-liberal market cases suggests that the state facilitation of

mortgage finance in Denmark and Sweden may reproduce a power relation that is distinct from the Marxist emphasis on capital accumulation at the expense of wages. For example, the state facilitation of mortgage credit in the Danish case may be considered to reproduce a Neo-Weberian power relation over the distribution of socially desirable outcomes in terms of material gains and social norms (Seabrooke, 2002).

Homeowners in Denmark may be considered to have higher incomes than non-owners and, through the facilitation of mortgage credit, the state may be attempting to provide access to material gains and the social norm of private housing for the wealthier members of society (Munch et al, 2008; Schwartz, 2008). The motivation for such state intervention in the private housing market may be linked to the mediation of the power relation at the root of the Danish “social compromise”, which has seen the widespread diffusion of decommodified welfare state services, such as healthcare and pension provision, funded through high levels of income taxation, of which the tax burden falls predominantly on wealthier professional workers with higher incomes. Therefore, the hegemonic vision in control of the Danish state may use the distribution of mortgage credit as a mechanism of bottom-up consent to maintain political legitimacy in the eyes of wealthier voters. There may be an alternative motivation for the state to facilitate access to mortgage credit that may not involve the mediation of a specific power relation, which may be linked to a specific *raison d'état*. However, the assessment of the plausibility of these two objectives of the non-liberal state promotion of mortgage finance is beyond this quantitative analysis, and will be examined further in the Danish case study in chapter six.

A comparison of the results from models 7 and 8 suggests that increased exposure to highly commodified private housing markets, such as the liberal markets of the UK and USA, may have a negative effect on the wage share of national income. The increased engagement with mortgage finance in liberal markets may diffuse the “investor identity” in those states, which disciplines their behaviour to avoid the potential negative consequences of mortgage default, and exposes them to a greater deal of financial vulnerability (Grey, 1997; Köhler et al, 2015). Here there is a possible link to the mechanisms of bottom-up consent based on loss aversion, as the higher degree of housing commodification may increase worker exposure to the threat of physical insecurity in liberal capitalism compared with the social democratic states. Increased exposure to the commodification function leads workers to find a means of mitigating that insecurity, which reinforces the bottom-up mechanisms of consent to capitalist power relations by reproducing subordinate worker demand for employment. Such a relationship is confirmed by the results of the unemployment rate variable in the analyses of

the liberal markets, which suggests that increases in the demand for employment, through increases in the labour supply, can also be linked to a reduction in the wage share of national income.

The negative relationship between the distribution of mortgage credit and the reduction of the wage share also points to a central contradiction in liberal housing markets, as the increased demand for mortgage credit places downward pressure on the wage share, further increasing demand for mortgage finance to fund home purchases, leading to an increase in household debt-to-income ratios. Such an upward debt-leveraging spiral points to the identification of credit being a significant cause of financial instability, reproducing the crises that have been identified as an inherent feature of liberal capitalism (e.g. Minsky 1992; Marx 1982), which have also been caused by problems of mortgage liberalisation (Mian et al, 2010). Although both the Danish and Swedish cases have similar or greater levels of mortgage debt in their economies than the UK and USA cases, an examination of the differences in the institutional configurations between the liberal market of Britain and the Corporatist market of Denmark may highlight how mortgage debt influences the wage share differently between the Liberal and non-liberal cases. More specifically, the institutional configurations that shape the mortgage finance system, and the wider political economy of collective bargaining and welfare state structures, differ greatly between these liberal and non-liberal markets, which may have positive counter-balancing effects on the disciplinary mechanisms of mortgage finance. These different factors will be examined in greater detail in the comparative analysis of Britain and Denmark in chapter seven.

The degree of unionisation, wage bargaining power and welfare state service provision may also be linked to political outcomes in each state, which was examined by the ideological centre of gravity of parliament in each model. While the political institutional settings of each VORC may be thought to affect the functional distribution of income in each state, only the Danish case (model 3) demonstrated any significant effects of any changes in the ideological centre of gravity of parliament. The results suggest that as political partisanship in the Danish parliament becomes increasing right-wing, which may be defined as the belief in individual competition and the securing of personal rights, the wage share of national income decreases (Noel and Therien, 2008, 24). An analysis of this result is complicated by the changing structure of the Danish political system since the 1970s, as the shift from “old” politics to “new” politics in Denmark has created a division between right-wing economic policies, which, for example, seek to commodify welfare state functions and

liberalise markets, and right-wing social policies, which prefer to preserve the state provision of welfare services that marginalises the role of the market (Harrits et al, 2010).

## **Conclusion**

This analysis has sought to establish a bridge between the financialisation and VORC literature through an examination of the disciplinary effects of the specific channel of mortgage credit on the wage share of national income in four countries across three different VORC. In each case examined by this analysis, the UK, USA, Denmark and Sweden, there has been an absolute reduction in the wage share of GDP between 1979 and 2012. The results from the pooled panel data regression models confirm that an increase in the outstanding mortgage stock has a statistically significant negative effect on the wage share of GDP across the three different VORC examined in this study. Such common outcomes across different typologies of residential capitalism may suggest that this negative relationship could be a generalisable feature of financialised capitalism. However, once the results are segregated to a country level, there is a marked distinction in the results between liberal and non-liberal VORC, which limits the generalisability of the results. The statistical significance of the negative relationship between the increase in mortgage credit and a decrease in the wage share identified by the panel data analysis holds in both liberal markets of the UK and the USA, but does not hold in either the corporatist market of Denmark or the statist-developmental market of Sweden.

The negative relationship between the increased distribution of mortgage credit and the reduction of the wage share suggests that there is a widespread diffusion of the “investor identity” in those states, which disciplines borrower behaviour to avoid the potential negative consequences of mortgage default, and increases their exposure to financial vulnerability (Grey, 1997; Köhler et al, 2015). Loss averse borrowers may seek to mitigate the exposure to financial vulnerability and avoid the severely negative consequences of mortgage default, which marginalises their wage bargaining power as they are unable to take long-term strike action and reinforces their demand to maintain stable employment. Therefore, from a state theory perspective, the results suggest that the mortgage credit channel of financialisation may be understood as a significant technical mechanism used by the state in liberal capitalism that reinforces the conditions for capital accumulation at the expense of waged labour by exposing the public to the disciplinary mechanisms of mortgage finance, thereby reproducing a key Marxist power relation. An alternative explanation for the reduction in the



wage share of GDP in the liberal cases may be that capital has simply been more productive than waged labour. However, the increased returns to capital may not necessarily be due to an increase in factor productivity, as they have rather been related to the combination of a reduction in the rate of waged labour increases, as well as a shift from productive to financial capital (e.g. Bengtsson and Ryner, 2015. 7-8). These results have contributed to such an analysis through the suggestion that the mundane “everyday life” decision to engage with the mortgage credit channel of financialisation can be understood as a technical disciplinary mechanism that reinforces the “investor identities” of borrowers, and has contributed to the downward pressure on wages by marginalising the wage bargaining power of workers in Liberal capitalism. While this econometric analysis has demonstrated that there is a causal relationship between an increase in mortgage debt and the reduction of the wage share in liberal markets, the “investor identity” mechanism that connects the two variables is specified in such a way that does not allow for it to be tested in this analysis. However, from a Critical Realist perspective, the results have identified that mortgage debt is an underlying causal mechanism in the reduction of the wage share in Britain but not in Denmark, which will be more fully articulated in the separate qualitative analyses of each case in chapters 5 and 6.

From a comparative political economy perspective, the most plausible differences in the institutional configurations between the liberal and non-liberal cases in this analysis that have resulted in the divergence in the disciplinary effects of mortgage credit may be reduced to four key aspects: (1) mortgages in liberal markets may be provided at a higher cost to the borrower than in the non-liberal markets, increasing the disciplinary weight of the mortgage payment; (2) the widespread use of the mortgage bonds in non-liberal markets may allow for more flexible renegotiations in periods of borrower economic uncertainty in comparison to liberal markets; (3) the increased level of co-operative collective bargaining in Social Democratic states may strengthen worker wage negotiations; and (4) liberal asset-based welfare systems emphasise the importance of accessing financial gains from the private housing asset, which may reinforce the “investor identities” of loss averse borrowers and increase the disciplinary effects of mortgage credit in liberal states. Whilst it is posited that these factors may explain the differences in the disciplinary effects of mortgage finance between the liberal and non-liberal cases, a full evaluation of these institutional configurations of each state is beyond the scope of the econometric analysis of this chapter. Therefore, a more comprehensive explanation of the different results between the liberal and the non-liberal case of Britain and Denmark will be developed in the comparative analysis of the wider political economy of both states in chapter seven.

## Chapter 5

### The Role of Mortgage Credit in the Political Economy of Britain

*“When the farmer has got his house, he may not be the richer but the poorer for it, and it be the house that has got him”*

Henry David Thoreau (2004, 30)

The results of the quantitative analysis outlined in the previous chapter have demonstrated that an increase in the distribution of mortgage debt has a negative effect on the wage share of national income in Britain between 1979 and 2012. From a Marxist perspective, the results suggest that the British state may have used mortgage credit as a specific technique to redistribute the share of value added to national income away from waged income towards capital, thereby reproducing the conditions for capital accumulation. The results of the British case are corroborated through an examination of the other liberal market case of the USA, which suggests that this negative relationship may be generalisable as a feature of financialised liberal capitalism. Whilst the quantitative analysis of the British case has successfully identified the existence of the underlying causal negative relationship between mortgage credit and the wage share, the full articulation of this relationship and why it would exist in the British case, but not in the Danish case, is beyond the scope of the use of such a quantitative method. Therefore, based on the use of retroductive process tracing, this chapter seeks to establish the conditions that would be necessary for the increased distribution of mortgage credit to negatively affect the wage share in Britain.

The privatisation of housing has been identified as a foundational component of Thatcherite hegemony that was used to facilitate the accumulation of capital in Britain (Hay, 1992; Hodgkinson and Robbins, 2013). However, much of the literature focuses on how housing was used by the Thatcher government to align working class interests with the Thatcherite vision for Britain, thereby producing Conservative neoliberal subjects out of those previously sympathetic to Labour’s vision of socialism (Ginsburg, 1983). Such a view suggests that homeownership can be reduced to a transformative instrument of class power, which is overly structurally deterministic and fails to sufficiently account for the important role of individual agency. The emphasis on the transformative ability of homeownership to

create neoliberal subjects also fails to account for the necessary reproduction of power that would explain how homeownership can be more concretely and directly linked to the Thatcherite objective of capital accumulation. Here there is a link to the central component of the hegemonic vision of the Thatcher government, which was to restore Britain's flagging economic performance by reviving the domestic financial sector. The promotion of private housing by the Thatcher government created an ideational structure of situated agents with a choice of becoming homeowners or not. The strong promotion of the positive aspects of private homeownership increased the owner-occupation rate and the public engagement with mortgage credit, which generated vast sums of revenue for the financial sector. Here there is a suggestive link to the disciplinary effects of mortgage debt, which regulates borrower behaviour to avoid the negative threat of mortgage default, and marginalises worker bargaining power for wages (Grey; 1997; Langley, 2007). Therefore, to establish a credible causal mechanism between the increase in mortgage credit and the reduction of the wage share in Britain, identified by the quantitative analysis in the previous chapter, this chapter will perform a qualitative analysis of the specific political and economic conjuncture surrounding the Thatcher government and establish whether that has been reproduced by the governments that succeeded the Thatcher administration.

This chapter will be organised in four main sections: The first section outlines the different housing tenures in Britain, and explains how private homeownership was promoted as a structured governmentality by the Thatcher government. The second section of this chapter discusses the wider objectives of the Thatcherite hegemonic vision, which placed primacy on restoring the conditions for economic growth by reinvigorating the financial sector. Here it is suggested that the promotion of private housing can be understood as a means of generating vast sums of revenue for the financial sector, which could stimulate the British economy as part of a mortgage debt-led capital accumulation regime. The third section describes how purchasing a home and taking on a mortgage can discipline borrower behaviour to avoid the negative consequences of mortgage debt default. This section also suggests that the Thatcher government used mortgage credit as a mode of regulation to integrate marginalised members of British society, such as trade union members and social tenants, into the wider functioning of the capitalist economy. The fourth, and final, section of this chapter examines how the New Labour and Coalition governments in Britain have reproduced the mortgage-led accumulation regime, to establish a workfare-debtfare hybrid state, where access to public and private provision of welfare goods is dependent on taking on employment. This section also argues that worker dependency on financial services to

access private welfare goods generates bottom-up consent to the continued deregulation of the financial sector, despite the severity of the costs and failures manifested by the 2008 GFC.

### **Housing Tenures in Britain**

The specific housing tenure of a property designates the legal status under which the occupiers have the right to access that property, and housing tenures in Britain may be divided into three main categories; private owner-occupied housing; public social rental housing and private rental accommodation. Private households that reside in a home that they own are described as owner-occupiers, which is composed of two distinct groups: mortgagors and outright owners (DCLG, 2015, 18). The high cost of private housing is normally several times the household income, which necessitates taking out a mortgage loan to purchase the home (DCLG, 2015, 19). Therefore, mortgagors are those who have taken a loan to facilitate the purchase of the private home, who are repaying an outstanding debt to their lender (DCLG, 2015, 18). The mortgage lender, which has traditionally been a bank or building society in Britain, requires evidence of household income that is sufficient to meet the loan repayment schedule and the borrower will also have to have a sufficient amount of liquid assets to fund a down payment (DCLG, 2015, 19). The mortgage loan is secured against the property, and the lender can take possession of the home to recover the cost of the initial loan if the borrower defaults on the mortgage (DCLG, 2015, 19). Alternatively, outright owners have either never had a mortgage or have paid off their debt, which allows them to “own their home without qualification or limitation” (DCLG, 2015, 18). As of 2013, there were approximately 14.3 million households in Britain that were owner occupiers, of which 6.9 million were mortgagors and 7.4 million households who were outright owners (DCLG, 2015, 18).

In Britain, social rental housing is defined in terms of either the state ownership or subsidisation of a property that is rented at a cost below market price, largely to “those who cannot serve their own housing needs” (Scanlon and Whitehead, 2007, 8). In the early 1980s, approximately 93 per cent of socially rented housing in Britain was owned by local council authorities (Whitehead, 2007, 57). Since 1988, the clear majority of new social housing has been provided by Housing Associations, which are considered non-profit independent (i.e. non-state or council) landlords who have a mandate to provide housing for lower income or

socially vulnerable households (Whitehead, 2007, 57). Social tenants are disproportionately young or old, single parents, economically inactive or retired (Whitehead, 2007, 57). Approximately 50 per cent of all social tenant households have annual incomes below £10,000, and at least two-thirds of all social tenants receive subsidised rents from the central government in the form of housing benefit (Whitehead, 2007, 65-66). The provision of social housing in Britain as a means to provide for the most vulnerable in society is linked to the liberal welfare regime identified by Esping-Andersen (1990), which suggests that welfare provision exists as a social safety-net, where access is means-tested rather than universal.

The final housing tenure in Britain is private rental accommodation, which may simply be defined as any “rented dwellings not owned by local authorities or housing associations” (Scanlon, 2011a, 16). The supply of properties in the British private rental market has largely been provided by individual landlords with small property holdings, which tend to provide relatively short-term letting agreements (Scanlon and Whitehead, 2011, 9). Since the late 1990s, the default for tenancy agreements in the private rental sector has been the assured shorthold tenancy, which is valid for an initial fixed-term, such as six to twelve months, which adjusts to a revolving (i.e. month-to-month) lease (Scanlon, 2011a, 31). Private rental tenants have a very low security of tenure, as the landlord can evict the tenant with as little as two-months’ notice after the fixed period, and there is no legislation that requires the landlord to provide a reason for the eviction (Scanlon, 2011a, 31). In an interview with a representative from a professional mortgage association, it was suggested that the lack of security of tenure in the private rental sector was a significant driver of private homeownership, because “it will provide them with the security of tenure that isn't available in the private rented sector” (Interviewee 3, 2016). The provision of the private rental housing stock owned by private landlords has been stimulated by the development of Buy-to-Let mortgages, which allows individuals to fund the purchase of a property specifically to be rented out to a private tenant. The increasing prevalence of Buy-to-Let transactions can be understood as a means of providing an income for an increasing proportion of “asset rich, income poor” retirees (Rowlingson, 2006, 175).

Out of the three tenures, the British public have been described as having a strong preference for owner-occupied housing (Schwartz and Seabrooke, 2008). Private homeownership has even been described as a “deep, basic or natural desire” amongst the British population by actors across the political spectrum (Hamnett 1999, 53). The importance of private homeownership to the British public was stressed in an interview with Lord Michael Howard, Conservative MP from 1983 to 2010 and former Minister for Housing

under Margaret Thatcher, who stated: “I think there is something in the English psyche, going back to “your home is your castle”, which means that homeownership is a really important thing” (Interviewee 7, 2016).

	1961	1970	1980	1990	2000	2004	2010
Private rental	30.5	19.6	11.5	9.3	9.5	11.4	16.4
Social rental	26.8	30.4	33.0	24.9	21.7	19.7	18.2
Owner-occupied	42.7	50.0	55.5	65.8	68.8	68.9	65.4

*Table 7: Housing Tenures in Britain: 1961-2010. Source: DCLG (2017)*

Table 7 shows the relative changes in housing tenure occupation rates in Britain between 1961 and 2010. Since 1961, the private rental sector decreased dramatically from 30.5 per cent in 1961 to 16.4 per cent in 2010, reaching a low of 8.6 per cent in 1986 (DCLG, 2017). Similarly, the demand for social rental accommodation also declined dramatically between 1961 and 2010; from 26.8 per cent to 18.2 per cent (DCLG, 2017). Whilst there was a decline in the social housing tenure rate between 1961 and 2010, the size of the social housing sector actually increased between 1961 and 1980, peaking at 33.23 per cent in 1979, which then declined until 2010 (DCLG, 2017). The most significant cause of the decline in the social rental sector is “the large and continuing expansion of owner-occupation” (Whitehead, 2007, 54-55). As shown by table 7, the owner-occupation rate increased from 42.7 per cent in 1961 to 65.4 per cent in 2010, and peaked at 69.2 per cent in 2001 (DCLG, 2017).

The largest increase in the owner-occupation rate and the largest decrease in the prevalence of social housing both occurred between 1980 and 1990, which coincided with the premiership of Margaret Thatcher, after the Conservative party won the 1979 general election. Widening access to property ownership has been considered a long-term strategy for the Conservative Party (e.g. Churchill, 1884), and social housing was thought of in negative terms by the Thatcher government who actively sought to encourage their positive ideal of private homeownership in Britain. Expanding homeownership was considered “one of the most important things” the Thatcher government could do to distribute wealth and property ownership among the British public (Heseltine, 1978, 1). The 1979 Conservative election manifesto promoted the party’s long-term commitment to establishing a property-owning democracy, with the stated aim of allowing “more people to have the security and satisfaction of owning property” which “means first and foremost a home of their own” (Francis 2012, 276; Conservative Party 1979). Therefore, the promotion of private housing may be considered a key element in the hegemonic vision of the Thatcher government, which can be

related to the long-term Conservative party objective of widening homeownership.

As part of the Housing Act of 1980, the “Right to Buy” (RTB) programme was one of the first major pieces of legislation passed by the Thatcher government, and was considered “by far the most radical pledge” in the 1979 Conservative general election manifesto (Heseltine, 2000, 194). The subject of the RTB programme related to a widespread tenure transfer for social housing tenants to become private homeowners, as the policy provided approximately six million council tenants in Britain with the statutory right to purchase the freehold of the house, or a long leasehold on their flat, that was rented from their local council (Balchin and Rhoden, 2002, 188). The object, or target, of the RTB policy was the social tenant, as long-term sitting tenants were offered a range of steep discounts on the purchase price of council-owned properties as an incentive to switch housing tenure from being social renters to becoming private owner-occupiers (Balchin and Rhoden, 2002, 188). The working class were considered a general target of Thatcher government policy, and as approximately two-thirds of trade union members were social tenants living in rented council accommodation at the time the Thatcher government came to power, trade union members may also be considered a significant and specific target of the RTB policy (Hoskyns and Strauss, 1977, 29; Walker, 1982). Therefore, working class social tenants and trade union members may be understood as the specific objects and targets of the RTB policy, to whom the subject of private housing was promoted.

The Thatcher government created an ideational structure through the problematisation of social housing by describing it in strongly negative terms, such as helplessness: “we are reaching a situation where a large and growing proportion of the labour force and possibly a majority of manual workers are treated as though they were unable to house themselves without State assistance” (Thatcher, 1974a, paragraph 3). The negative role of the state was often referred to in the Thatcher government discursive communication surrounding social housing, and council tenants were described as being subjected to the “oppressive” mechanisms of state housing provision and the “whims” of government officials (Hamnett 1987, 217; Francis 2012, 294). The problematisation of social housing simultaneously created objects and subjects out of social tenants, who were encouraged to understand themselves negatively in relation to the social housing tenure they currently accessed. Alternatively, the positive values promoted through the discursive communications used by the Thatcher government to describe owner-occupied housing, repeatedly invoked a spirit of political, physical and financial independence, as well as security for the homeowner and their families (Francis 2012, 294). For example, before the election, Thatcher (1974b,

paragraph 2) stated that “home ownership gives people independence and a stake in their country” and shortly after election to office in 1979, Thatcher stated that owning property “will give more of our people that freedom and mobility and that prospect of handing something on to their children and grandchildren which owner occupation provides” (Hamnett 1999, 53-54). A similar sentiment was echoed by Thatcher’s second minister of housing, Ian Gow: “We should set no limit to the opportunity for owner occupation in Britain. In those societies where property is widely owned freedom flourishes” (Gow 1985, quoted in Hamnett, 1987, 217). Therefore, through the RTB programme the Thatcher government used the institutions of the state as a mode of intervention to encourage the state’s withdrawal from the provision of housing by promoting the private housing market.

The positive values of private homeownership that were promoted by the Thatcher government through the RTB policy, in comparison to the negative values ascribed to social housing, may be considered a part of a structured governmentality designed to problematise social housing for social tenants to provide them a positive rational logic of incentives to become private homeowners. It is important to stress that this positive understanding of homeownership promoted by the governmentality, in terms of the legitimate benefits of private housing, such as financial security and independence, may not be considered a false consciousness, as these benefits of owner-occupied housing are accepted as genuine values that British citizens demand to access (Stanley, 2014). It is rather that these positive values of private housing were used as a structured rationality designed to provide a solution to the Thatcher government-created problem of social housing in Britain. The success of the problematisation of social housing through the private housing governmentality can be seen in the changing aspirational demand for private and social housing tenures in Britain under the Thatcher government. When Thatcher became leader of the Conservative Party in 1975, owner-occupied housing was considered the preferred housing tenure by 51 per cent of the public, with 32 per cent of the public preferring social housing (Pannell, 2012, 10). Yet by 1991, after Thatcher left office, the aspirational demand for private housing had increased to 77 per cent of the British public, whilst those preferring social housing declined to 13 per cent (Pannell, 2012, 10). Therefore, the positive values used to describe private housing as a solution to the problem of social housing through the governmentality may be considered a significant factor in the normalisation of owner-occupied housing in Britain under the Thatcher government (e.g. Gurney, 1999). Furthermore, there has been a significant body of research into the public’s understanding of private homeownership (e.g. Gurney, 1999; Francis, 2012; Stanley, 2014) that suggests that the home is understood in terms of a financial



asset and source of security, which is how it was promoted by the Thatcher government, and is a key element of the normalisation of the demand for owner-occupied housing in modern Britain.

### **The Mortgage-led Financial Accumulation Regime**

Although the Thatcher government strongly promoted private housing and implemented policies to facilitate homeownership, the emphasis of the pre-election strategy documents for the Thatcher government was on halting Britain's economic decline that had developed since the 1960s, which threatened to marginalise Britain's relative importance within the wider global political economy (Hoskyns and Strauss, 1977; Thatcher, 1978). The economic environment in Britain in the 1960s and 1970s was characterised by low productivity growth that was outpaced by wage growth, and a balance of payments deficit caused by high imports of mass-consumption goods without sufficient capital exports (Jessop, 1989). The inflation crises of the 1970s contributed to increased wage demands from workers, which were supported by widespread industrial action if not met, and placed greater cost pressures on the manufacturing sector. The Thatcher government believed that British manufacturing firms were uncompetitive on price due to the high wage demands from employees, and the British economy could become more internationally competitive if firms were able to place downward pressure on wages (Joseph, 1979a; Conservative Party 1979; Lawson 1986). Although Thatcher sought to improve the fortunes of the industrial sector in Britain, manufacturing competitiveness in 1982 was approximately 40 per cent below what it was in 1978, before the Thatcher government took office (Walker, 1982). This left the Thatcher-led Conservative party facing "grimmer prospects than at any time since the end of the second world war" and the "potential for an electoral disaster" (Walker, 1982, 2). Therefore, although promoting private housing was important to the Thatcher government, the economic revitalisation of Britain may be considered a higher priority objective of the Thatcherite hegemonic vision.

Whilst manufacturing and industrial production was a key part of Britain's post-war economic strategy, Britain has been more closely associated with a finance-based accumulation regime (e.g. Stockhammer, 2008). The London Stock Exchange (LSE) had been the dominant global institution for raising capital up until the eve of World War One; however, despite the influence of Britain's financial sector, largely concentrated in the City of London, the sector's economic output had waned significantly (Thompson, 1997). By the

early 1980s, the Tokyo and New York stock exchanges “had daily volumes of trade ten times greater” than the LSE (Thompson, 1997, 290). The decline of the post-war British financial sector was largely due to the nationalisation of the Bank of England by the Labour government in 1946, which instigated a period of tight domestic financial sector regulation that structurally constrained the actions of financial institutions and resulted in conservative investment practices throughout the 1950s (Thompson, 1997, 291). The regulation of the British financial sector was limited to domestic activities only, such as banking, mortgages, and insurance, as well as business investment, whilst international financial activity conducted in non-sterling currency was outside the jurisdiction of the Bank of England, which meant that it was left largely unregulated (Thompson, 1997, 292). This lack of regulation on international activity spawned a series of outward facing “multi-purpose finance houses” that were, for example, trading in newly created Eurodollar and OPEC petrodollar markets that were developed in the 1960s and 1970s (Thompson, 1997, 292). By the early 1980s, there were approximately five hundred foreign financial institutions operating in London, as it was considered one of the least-regulated global financial centres for international transactions (Thompson, 1997, 292). The dichotomy between the national/international outlook came to divide the City of London into two distinct “cities”, where one consisted of highly regulated British firms conducting low volumes of domestic business, whilst the other was largely unregulated international firms conducting a large volume of international transactions (Plender and Wallace, 1985). The Thatcher government sought to reinvigorate the domestic British financial sector, which had been identified as one of Britain’s strongest economic sectors, yet still had room for improvement, and set-upon a programme of deregulation that would dissolve the domestic and international regulatory dichotomy, and stimulate the domestic economy.

The financialisation of the British economy occurred after a series of financial deregulation measures were introduced by the Thatcher government between 1983 and 1986, which re-established London as one of the predominant sites of global finance, and coincided with the financial sector being the largest sectorial donor to the Conservative re-election campaign of 1983 (Palley, 2013; Guay, 2014; Ewing, 1987, 37). The original demand for financial market deregulation was made in 1979, shortly after Thatcher took office, when the chairman of the Stock Exchange argued that it should be exempted from regulation by the Restrictive Practices Court, as they had insufficient technical knowledge of the financial sector and its contribution to the economy (Department of Trade, 1979). Although the Thatcher government were willing to grant the request, for any deal to be struck the

government demanded that the LSE remove their anti-competitive practices, which limited trading activity in the City (Redwood, 1984a, 3). However, the LSE was unwilling to adhere to such demands and the request was denied (Redwood, 1984a, 3). Yet officially, the Secretary of State for Trade, John Nott, stated there was “no reason” why the court would not be able to decide on a ruling in the public interest, and it would be politically unpopular to interfere with independent judicial decisions (Department of Trade, 1979, 2).

The potential deregulation of the LSE was discussed again in 1983, during a meeting between the Chancellor, the Trade Secretary, and Governor of the Bank of England to discuss European Commission directives on the securities market (HM Treasury, 1983). Here it was thought that the LSE could be removed from the supervision of the Restrictive Practices Court if they were willing to accept more competitive practices, such as the removal of minimum commissions, that were in-line with wider government pro-competition policy, as “many in the Stock Exchange were now ready for sweeping changes” (HM Treasury, 1983, 2). The Thatcher policy advisors were quick to emphasise that the government needed “to capitalise on the radical nature of the deal” (Redwood, 1983, 2). The key to making a success in the new environment of financial sector deregulation was going to be to facilitate access between “the small retail customer” and the financial services industry (Redwood, 1984b, 2). It was thought that increasing public engagement with financial services would help the financial sector grow, and contribute to a stronger economy (Redwood, 1985). Therefore, the Thatcherite hegemonic vision’s objective of reinvigorating the financial sector was reliant on widening the social basis of the state’s engagement with financial services.

The dismantling of the LSE commission system was to be completed by the end of 1986, and became part of a wider set of financial deregulation measures known as “The Big Bang” (Redwood, 1985). The LSE was moved to a system of statutory framework of self-regulation under six organisations, and, in exchange, they removed the two most significant restrictive practices; fixed commissions, which were a “cartel agreement on charges for trading securities”, and single capacity trading, which was the distinction between brokers, who were trading on behalf of their customers on an agency basis, and jobbers, who were engaging in trades on their own account (Griffith and Willets, 1986, 1). The other key market restriction was the exclusion of domestic banking firms and foreign financial institutions from membership of the LSE, which had been removed in March of 1986 (Griffith and Willets, 1986, 1). The removal of these restrictions meant that businesses did not have to be a member of the LSE “to make a market in shares”, which allowed a wide array of actors to engage in “market-making” and increased competition (Redwood, 1985, 1). Additionally, the

removal of these restrictive practices made small-scale trading much cheaper, which the Thatcher government thought would encourage “the small man” to regularly engage with financial services through retail high-street outlets (Griffith and Willets, 1986, 4).

Throughout the 1980s, the Thatcher government privatised many national industries, which were listed on the stock exchange, the largest of which occurred after the Big Bang, such as “British Gas in December 1986; British Airways in February 1987; Rolls Royce in May 1987; the British Airports Authority in July 1987; British Steel in November 1988; [and] regional water companies in December 1989” (Heffernan, 2005, 266). Privatisation was not considered a coherent pre-election strategy for the Thatcher government in either 1979 or 1983, but they did implement a series of incentives to ensure successful asset sales and encourage widely diffused share ownership throughout the British public whilst in office (Heffernan, 2005; Marsh, 1991). These privatisations led to a vast increase in share ownership in Britain: in 1979, approximately three million people were shareowners, which increased to almost twelve million by the late 1980s (Simon, 2013). If these privatisations are also placed in context of the declining trade volumes of the LSE, they may also be thought of as a form of direct government stimulus to the financial sector by providing high-profile and valuable assets to trade, which demonstrated London’s new strength as a deregulated centre of global finance. The deregulation of the stock exchange saw the value of the volume of traded shares on the LSE increase from 5.8 per cent of GDP in 1979 to 27.8 per cent in 1990 when Thatcher left office (World Bank, 2017). However, these figures are dwarfed by the 2007 peak of 128.9 per cent of GDP, which demonstrates the importance of the financial sector to the British economy (World Bank, 2017). As of 2012, London had become “the largest global market for foreign exchange trading, and a centre for trade in commodity derivatives of all kinds” (City of London, 2013, 8). Such a revitalisation of the British economy suggests that the Thatcherite hegemonic vision’s central objective of restoring the conditions of economic growth was achieved through the process of financialisation.

Although these deregulation measures increased the size of Britain’s financial sector, the British economy has more specifically been identified as being driven by debt-led economic growth (Stockhammer, 2016). Here there is a link to the widespread distribution of mortgage credit after Thatcher took office, which was a cornerstone of the plan to develop the financialisation of the British economy (Redwood and Willets, 1984). Mortgage debt carries the single largest debt burden for households, and the structure of the British mortgage system makes it a highly profitable revenue stream for the financial services sector (see chapter seven for an in-depth analysis of the structure of the British mortgage system). The

relationship between the financial sector and the private property market can also be linked to the Thatcher government's desire to encourage everyday citizens to widely engage with financial services through the Big Bang (Coakley, 1994). Many of the financial deregulation measures implemented by the Thatcher government were specifically directed to increase the distribution of mortgage credit in Britain, which was necessary to widen access to private homeownership through the RTB programme. The conditional rules of access surrounding the RTB policy were based on the requirement of the individual to be a social tenant, and their subsequent ability to raise sufficient capital to purchase the property in which they had lived as a sitting tenant. However, the Thatcher government were aware that a lack of savings capital could have been a significant hindrance to many social tenants wishing to purchase their council homes, as social housing has been largely inhabited by those on the lower end of the income distribution in Britain. To guarantee that social tenants would be able to exercise their statutory right to buy the council property they inhabited, legislation was also passed to provide a "right to a mortgage", which ensured that every council tenant was able to access mortgage finance to fund the purchase of their home (Gow, 1979; Heseltine, 1979). At the time the Thatcher government took office, access to private sources of mortgage finance was restrictive, and the "right to a mortgage" was aided by local authorities, who could provide one hundred per cent mortgage financing to any borrower wishing to take up the RTB programme, which was back-stopped by the central government (Balchin and Rhoden, 2002, 188).

Ministers within the Thatcher government were concerned about the additional costs to both local and central governments of supporting mortgage provision, and it was preferred that social tenants went to private lenders to obtain mortgage finance (Biffen, 1979). However, the conservative financial practices of the post-war era were also echoed in mortgage lending, as provision of housing finance was largely restricted to building societies throughout the 1960s and 1970s, which limited access to private housing (Gibb and Munro, 1999). In order to widen access to private mortgage finance, the Thatcher government implemented a series of financial deregulation measures after the RTB legislation passed. In 1980, direct monetary controls were removed on banks, which encouraged them to enter the mainstream mortgage market that was dominated by building societies (Hasan and Taghavi, 2002). In the run-up to the Big Bang, the Financial Services Acts of 1983, 1984 and 1985 provided building societies with access to wholesale credit markets, which increased competition and led to the collapse of the building society interest rate cartel (Stephens, 1993, 161). The Financial Services Act of 1986 moved the government regulation of the financial

services sector towards a system of self-regulation, and it also allowed commercial banks to compete directly with building societies for mortgage loans. The Building Societies Act of 1986 increased the allowance of funds that could be derived from wholesale credit markets, which led to a significant increase in the pool of available mortgage credit (Stephens, 1993, 164).

These mortgage credit market deregulation measures contributed to a period of exceptionally high housing transaction levels in Britain, particularly among first-time buyers, which generated vast sums of revenue for the financial sector (Ortalo-Magne and Rady, 2004). The combination of the RTB policy and the deregulation of the mortgage markets saw the total number of council-owned dwellings sold increase from 568 in 1980, to approximately 1.7 million in 1998, which vastly increased the number of private homeowners in Britain (Balchin and Rhoden 2002, 199). The successful and widespread adoption of the RTB programme led the Thatcher government to describe themselves as having “done more than any other” to promote private homeownership, albeit with the state making a mean long-term loss of approximately £12,500 per dwelling sold (Howe, 1983, paragraph 97; Balchin and Rhoden 2002, 192). The Thatcher government promotion of private housing normalised homeownership as the preferred tenure throughout the population in Britain, and many of those living in private rental accommodation also sought to purchase a home. In 1979, there were approximately 11.5 million owner-occupied households, which increased to just over 15 million in 1990 (ONS, 2017b).

The increase in private homeownership also increased public engagement with the financial services sector in Britain through the channel of mortgage credit, which would have seen very high loan to value ratios for first-time buyers. As shown by the descriptive statistics in chapter four, whilst Thatcher was in office between 1979 and 1990, the total amount of mortgage debt in the British economy increased by approximately 650 per cent, and mortgage debt as a share of GDP increased from 24.4 per cent to 53.7 per cent during the same period. The normalisation of owner-occupied housing and the government subsidy for the privatisation of housing through the RTB programme may also be placed within a context of creating a stimulus for mortgage providers, as the vast increase in mortgage debt contributed to a substantial growth in revenue for the financial sector, which would have also supported the domestic economy. Therefore, rather than Britain being a generalised debt-led growth regime, as identified by Stockhammer (2016), the Thatcher government may be considered to have instigated a specific financialised growth regime centred on the

distribution of mortgage credit, which has been identified as a form of privatised Keynesianism (Crouch, 2009).

Although reinvigorating the financial sector was a key part of the Thatcherite hegemonic vision, the Thatcher government also believed that an economic recovery required value added to national income to be redistributed away from workers and the government towards private enterprise, which demonstrates an unambiguous desire to establish the conditions for capital accumulation at the expense of wages in Britain (Hoskyns and Strauss, 1977, S-1, S-11; Leys, 1985; Jessop et al, 1985). Here there is a link to the results from the quantitative analysis in chapter four, which demonstrate that mortgage credit is specifically related to an increase in the share of GDP distributed to capital in Britain between 1979 and 2012. Therefore, rather than being considered purely as a means to stimulate economic growth, the Thatcher government's use of housing finance may be considered a dedicated mortgage-led capital accumulation regime, which is supported by a steady stream of repayments made from borrowers to financial institutions, where income from employment is transformed into capital. The development of a mortgage-led accumulation regime, which would also have stimulated the economy, was enabled by the normalisation of private housing by the Conservative government, and fits with the Thatcher government's hegemonic vision of developing Britain into an advanced financialised economy based on increasing citizen engagement with financial services.

### **Mortgage Finance as a Mode of Regulation**

Although necessary for most home purchases, the engagement with mortgage finance has been identified as a mode of behaviour regulation, as borrowers adjust their behaviour to meet the perceived requirements of the lender (Langley, 2014). Additionally, the choice to access mortgage credit places the borrower into a long-term creditor-debtor relationship with the lender, which has been identified as a power relation within the owner-occupied housing nexus (Lazzarato, 2012, 42). In any lending transaction, the lender is the dominant party in the power relation, as they are able to set the conditional terms of access to the loan, and the borrower may only choose to accept the loan if they are able to adhere to the structural path dependencies inherent in the lender's terms of access (Langley, 2014). Borrowers who demand access to mortgage finance internalise the conditions of the credit issuer and adjust their behaviour to meet the lender's terms of access by ensuring they have an income from employment, a sufficient down-payment and a credit history in good standing (Langley,

2014, 1). Therefore, borrowers who take on mortgage debt to access private housing are subjected to a series of disciplinary mechanisms by the lender, which dictate specific patterns of generating and spending an income that integrates mortgagors into a wider system of structural path dependencies in capitalism (Langley, 2014; Foucault, 1979, 140; Rabinow and Rose, 2006, 196).

The conditional terms of access to mortgage finance are not a one-off event, as the borrower's decision to access mortgage finance also exposes the borrower to series of disciplinary mechanisms for the entire duration of the long-term loan, which is normally twenty-five years in Britain (Lazzarato 2012, 71). While a mortgagor still owes a debt to the lender, it is the lender, not the borrower, that is the legal owner of the property in Britain, and the borrower may only be considered the legal owner once the mortgage balance has been paid in full (Horsham Properties Group Ltd v Clark. 2008). While the borrower holds a mortgage, they may only inhabit the property with permission from the lender, and permission is conditionally granted by the lender as long as the borrower's mortgage repayments are made in accordance with the lending agreement. Failure to make the payments in-line with the mortgage agreement will lead to a mortgage default, which has significant negative penalties for the borrower in Britain. Mortgage default may result in the forcible removal of the borrower from the property, and a downgrade of their credit history, which can reduce the ability of the borrower to access credit in the future and may exclude them from rental accommodation as well as certain employment roles, especially in the financial sector. Additionally, mortgage loans in Britain are recourse loans, and borrowers are held responsible for negative equity losses incurred by the lender for up to six years after they have defaulted (Aron and Muellbauer, 2010, 6). Therefore, mortgage debt default carries significant social and economic losses, which the borrower would seek to avoid (Li and White, 2009).

The most common reasons for defaulting on a mortgage in Britain are through the loss of employment or severely reduced earnings (Ford et al, 2010). It has been shown that households that believe they are in negative equity seek to mitigate any potential employment shocks by diminishing their wage demands (Cunningham and Reed, 2013). Subsequently, any mortgage holder facing similar negative threats from potential employment shocks may be faced with a disincentive to bargain for higher wages if they are uncertain of an alternative source of income. Therefore, to maintain access to the property, the structures of legal statutes and the potential severely negative consequences of default act as the disciplinary mechanisms of mortgage finance, which establishes an "investor identity" for the borrower,



and reproduces the demand for employment by the borrower to obtain and maintain an income to meet their obligations to the mortgage lender (Langley, 2007). The exposure to mortgage debt has been linked to the role of subject formation through the creation of “suburban subjects”, which relates mortgage finance to the understanding of the self through “features of liberal subjectivity, namely security and autonomy, and is, at once, individualising, normalising and disciplinary” (Langley, 2006, 290). These effects of accessing private homeownership through mortgage debt on formulating the self can be summarised as: “Individualising: this is mine, I bought it, it is for my personal use. Normalising: I am a home owner, a responsible citizen, a person of property. Disciplinary: I must work and pay for my house, or lose my status as a normal individual if I cannot.” (Grey, 1997, 49). Therefore, “responsible home-owners are distinguished here from their Other: those irresponsible and irrational individuals who spend “dead money” on rent and fail to get “a foot on the property ladder”” (Langley, 2006, 290).

These structures created by the positive incentives of homeownership and the negative disciplinary mechanisms of mortgage finance can be linked to the wider objectives of the Thatcher government. The Thatcher government were keen to encourage the British public, specifically trade union members, to engage in forms of “reasonable behaviour” that would lead to the stabilisation of the British economy and wider society (Hoskyns, 1979, 6; Howe, 1977, 5). Throughout the 1970s, union activity in Britain became increasingly militant in their demands for wages to match the spiralling increases in inflation, which culminated in long-term general strikes, such as the “Winter of Discontent” between 1978 and 1979. The constant worker demands for higher wages, coupled with the subsequent disruption to the chain of production from industrial action if those demands were not met, were regarded by the Thatcher government as *the* major cause of Britain’s industrial decline and a significant destabilising factor in Britain’s social, economic and political landscape (Hoskyns and Strauss 1977, S-2; Jenkins, 1987, 15-16; Benyon, 2014). Therefore, the Thatcher government needed to find a way to dissuade workers from making pre-emptive demands for wages to increase above or in-line with inflation and productivity, whilst ensuring that they did not engage in costly and unproductive strike action (Hoskyns, 1979, 6, 9; Ridley, 1977).

The Thatcher government identified that the orderly society and reasonable behaviour they sought to encourage could be achieved by establishing a coherent logic that would instil a “will to work” within the British public, which would create a functioning social and economic formation in Britain (Thatcher, 1979a, 56; Lamont et al, 1975, 1). The will to work would be encouraged through the introduction of policies that established financial incentives

to reward work, as “it was only reasonable that people should want to work for a higher standard of living for their families” (Thatcher, 1979b, 2). As well as incentives, the will to work would also be fostered by exposing the public to a series of disciplinary policies that would, for example, “make striking more expensive” and “make people think twice about striking” (Hoskyns, 1980, 14; Joseph, 1979b, 1). For example, the Thatcher government passed legislation that aimed at increasing private housing costs for strikers, such as redirecting the disbursement of supplementary benefit for mortgage interest payments from the claimant to the lender (e.g. Willets, 1984), which would have reinforced the disciplinary effects of the mortgage payment. Furthermore, high levels of unemployment were used as a “deterrent effect” by the Thatcher government to reinforce the will to work in the British public, and the unemployment rate increased significantly from 5.4 per cent in 1979 to 9.9 per cent by 1992, hitting a peak of 11.8 per cent in 1984 (Howe, 1977, 2; ONS, 2016a).

The hidden reproductive and conditional power within the British owner-occupied housing nexus must be understood in the context of incentives and disciplinary mechanisms encoded within the RTB programme. The economic conditions of the late 1970s and early 1980s presented a significant challenge to demonstrating the positive material rewards to working, as high levels of inflation, combined with stagnating wages, threatened to create a decrease in real living standards for households dependent on wages from employment. The RTB programme offered a means of improving the material conditions for workers without an increase in wages by providing access to private housing, which is widely considered a financial asset in Britain. More specifically, the understanding of the home as a financial asset would have acted as an incentive for social tenants, largely consisting of trade union members, to improve their material conditions by purchasing a private home. However, engaging with the ideal of homeownership also exposed former social tenants to the disciplinary mechanisms of mortgage finance, which would have instilled a demand for stable employment by the borrower to maintain an income to meet their debt obligations. Therefore, the positive understanding of the home promoted by the RTB provides an incentive for potential borrowers to engage with the structural path dependencies of mortgage finance, which increased both monetary and non-monetary housing costs for trade union members, whilst simultaneously changing their preferences for stable employment over rigid wage bargaining tactics.

Here there is a suggestive link between the RTB programme and a desire to regulate the behaviour of trade union members who would have engaged in politically and economically destabilising strike action if demands for wage growth were not met. In an

interview, Lord Michael Howard (Interviewee 7, 2016) denied there was any intention for the RTB programme to encourage trade union members to engage with mortgage finance to regulate their behaviour. However, from an alternative perspective, at the time the RTB policy was implemented, the trade union leadership believed there was an “element of social engineering in the drive to widen homeownership” in Britain, as the Thatcher government did not need “many focus groups to realise that if you were paying a mortgage then you'd be less likely to go on strike, or change jobs quite so often: you tend towards a little more caution, because you had to get that next mortgage payment” (Interviewee 4, 2015). Additionally, an interview with a cross-bench member of the House of Lords supported such a view (Interviewee 13, 2016):

*the politics of how people viewed the individual voter's reaction to the [RTB] policy was that if you had a mortgage you had a stake in requiring a steady stable income. The kind of more casual, indeed carefree, way that you might behave as a trade union member if it was the rent that suffered, knowing that the council is unlikely to evict you, was different from owing a private mortgage company, a private building society or bank, a monthly sum. It was thought that you would be fearful of taking strike action, behaving badly, if you had commitments, which meant that if you didn't fulfil them would mean the loss of your home. I think that was how people at the time viewed the value to a stable society, if you like, to shifting to homeownership*

The explicit promotion of private homeownership by the Thatcher government can subsequently be understood as an attempt to generate a structure that creates incentives for unionised workers to demand to the positive aspects of private housing, which substituted their worker identity for that of a homeowner, whilst simultaneously subjecting them to the implicit disciplinary mechanisms of mortgage finance. Therefore, the objects of the RTB policy, social tenants and trade union members, may be considered a key part of the social basis of the British state, which the Thatcher government sought to integrate into a functioning social cohesion by widening their access to mortgage finance, which regulated their behaviour.

The exposure to private ownership and mortgage debt has been related to a process of normalisation, which encourages the individual to become a responsible home-owning citizen that works to pay for their property, where the negative effects of debt default act as a further incentive to maintain a stable income from employment. The decision to become a homeowner through the RTB programme would have shifted the self-identity of the individual from a unionised worker to a homeowner (e.g. Grey, 1997), which would have

contributed to the observed decline in bottom-up support for the unions. Additionally, as reducing the share of value added to GDP distributed to wages was a key goal of the Thatcher government, the exposure to the disciplinary mechanisms of mortgage finance may have shifted worker preferences from bargaining for higher wages through strike action to demanding stable employment, which would have placed downward pressure on wage growth. Therefore, the results of this analysis suggest that mortgage credit may be understood as a specific type of financialised capital accumulation regime that integrates subjects into the wider structures of liberal capitalism by disciplining them to demand and maintain stable employment at the expense of wage growth, whilst simultaneously redirecting capital towards the financial sector. Furthermore, based on the use of retroductive reasoning, the presence of such a disciplinary mortgage-led accumulation regime would be the necessary condition to explain the negative relationship between an increase in mortgage credit and the reduction of the wage share observed in Britain by the quantitative analysis in chapter four.

### **The Role of Mortgage Credit in the Wider British and International Political Economy**

Although the mortgage-led accumulation regime may be considered a key part of the Thatcherite hegemonic vision, the financialisation of the British economy, which occurred largely due to the deregulation of the financial sector and policy emphasis on homeownership, has been reproduced by the governments that followed the Conservative Thatcher government. The New Labour government, elected to office in 1997 under the leadership of Tony Blair, capitalised on the increase in homeownership under Thatcher, and implemented a series of “Third Way” measures of welfare provision known as asset-based welfare (ABW) (Kemp, 1999; Doling and Ford, 2007). In ABW systems, welfare objectives could be pursued through market operations, primarily using owner-occupied housing as a vehicle (Ryner, 2010, 556; Doling and Ford, 2007). Releasing equity tied up in a housing asset allowed homeowners to access private welfare goods, such as healthcare, or provide a source of income to smooth consumption in times of economic insecurity, as in retirement, which can be used to reduce fiscal pressure on the state provision of welfare (Doling and Ronald, 2010). ABW policies highlighted the importance of private homeownership to the New Labour government, which meant that they accepted many of the housing policy prescriptions of the previous Conservative administrations and reproduced the Thatcher government’s vision that prioritised and promoted owner-occupied housing (Kemp, 1999,

146). The emphasis placed on ABW through private owner-occupied housing meant that the New Labour government policy objectives were reliant, much like the Thatcher government, on “the unfettered capitalism of the City of London” to maintain “the liberalized (*sic*) markets for property and financial services” (Beech and Lee, 2008, 20).

In line with the traditional understanding of liberal welfare states, to which Britain has been characterised (e.g. Esping-Andersen, 1990), access to the state provision of welfare services by the New Labour government was means-tested and aimed at the lowest earners in society. Many of the social security programmes provided by the welfare state under New Labour were based on a “welfare-to-work” scheme, that sought to encourage those on benefits to engage with employment, which were largely supported through tax credit schemes that were funded outside the welfare system and were subsidised by a windfall from the taxation on privatised utilities (Thorpe 2008; Blundell et al, 2000; Glyn and Wood, 2001). This “New Deal” made the right to access welfare state support contingent on the recipient’s search for paid employment, which can be linked to the desire of the Thatcher government to instil the “will to work” in the British public, specifically in the lowest earners and welfare recipients (DSS, 1998; Driver and Martell, 2002, 36-37). Most working individuals in Britain are ineligible to access many welfare goods provided by the state, as their income is too high. Additionally, much of the British public increasingly prefer the private welfare service provision in goods such as education, healthcare and pensions (e.g. Ball, 2003; Taylor and Ward, 2006). However, the reduction of the wage share of GDP that has occurred in Britain since the 1980s, which forms part of a trend of widening inequality in Britain, has reduced access to private welfare goods from waged income (Stockhammer, 2013). Therefore, the shift to ABW has made the financial gains from private homeownership increasingly important to access privately supplied welfare goods and services.

To widen access to owner-occupied housing, the Labour government implemented a series of deregulation measures to further liberalise financial markets beyond the policies instigated by the Thatcher government. By 2000, the deregulation measures had culminated in banking supervision being transferred entirely from the Bank of England to the independent Financial Services Authority (FSA), which used a statutory system of regulation that allowed the financial industry to develop its own internal regulation solutions (Edmunds 2011, 9). However, the Bank of England and the Treasury were still involved in regulatory decision making (Mizen, 2008). Additionally, interest rates were severely reduced under the Labour government from 2000, which, combined with the deregulation of the financial sector, increased the total mortgage debt in the British economy from 55 per cent of GDP in

1997 to approximately 90 percent in 2010 (see figure 2 on page 100 for further detail). Furthermore, since 1993 imputed rent, which is the rent the homeowner pays themselves and is imputed from the rents payable on the housing market for an equivalent property, has become a component of GDP (Richardson and Doling, 2005). Increases in mortgage credit directly inflate house prices, which subsequently increases private rental rates as they are influenced by the buy-to-let and owner-occupied housing markets (IMF, 2009). Therefore, the vast deregulation of mortgage credit may be understood as a means of directly inflating national output and increasing economic growth. However, despite New Labour's reliance on the financial sector to foster economic growth and provide access to welfare goods through ABW, the vast expansion in mortgage credit that occurred between 2000 and 2008 has been identified as the predominant cause of the GFC, which severely deteriorated the performance of the British economy (Mian et al, 2010). In order to avoid a severe economic depression, the New Labour treasury dispersed £134bn to several financial institutions that were over-exposed to mortgage debt to safeguard the functioning of the financial sector, which, coupled with the reduction in GDP and increased government spending under Brown, established a severe structural budget deficit (Emerson and Tetlow, 2015).

The dire economic aftermath of the GFC in Britain led to a Labour defeat in the 2010 general election, and they were replaced by a Conservative-Liberal Democrat coalition government. It has been suggested that the Coalition government had abandoned the ABW policies implemented by New Labour, as there has been a shift towards the universal credit system to support in-and-out of work welfare payments (e.g. McKay and Rowlingson, 2016). However, it is not that ABW had been abandoned in Britain, but rather that ABW had merely taken a "quieter form" (Hay, 2014, paragraph 10). For the first three years in office, the Coalition government gave no real financial support to the private housing market over other fiscal domains, as their priority was deficit reduction, to be achieved primarily through "austerity" welfare spending cuts, not the promotion of a specific housing tenure (Hall, 2011, 78). Although the austerity policies that resulted in cuts to social welfare provision have largely hit the poorest in British society the hardest, particularly families with young children, the middle classes have also been negatively affected by the withdrawal of funding for state services (Morris, 2015; Lee, 2011, 21). One example of the additional middle class burden from the re-commodification of welfare services is the reduction in state subsidies for university fees in 2012, which saw tuition costs increase from £3,350 to £9,000 a year (Lee, 2011, 21).

Despite placing such a strong emphasis on cutting government spending, the

Coalition government maintained a financial commitment to promoting owner-occupied housing through the introduction of the “Help to Buy” (HTB) policy in 2013. The HTB scheme allows the government to obtain a twenty per cent equity stake in the value of new homes up to the purchase price of £600,000, which will be recouped upon the sale of the property, as well as providing fiscal guarantees to mortgage lenders if the borrower were to default (Shelter, 2015, 4). It has been estimated that by 2020 the HTB policy will have cost the British government up to £6bn in equity loans and the government will have guaranteed up to £12bn worth of mortgages (Shelter, 2015, 3). The HTB scheme sought to widen access to first time homebuyers, who are often considered the bedrock of the private housing market, and who were in danger of being excluded from owner-occupied housing due to the unrelenting increase in house prices in Britain since the GFC (Jones, 2013; ONS, 2016b). The HTB policy was also considered a means of supporting house builder balance sheets in an attempt to increase the housing supply, which has been cited as a significant cause of Britain’s current housing crisis (Interviewee 5, 2016; Wilson, 2010). The HTB programme suggests that the Coalition government reproduced a key element of the Thatcherite hegemonic vision by promoting and facilitating access to private housing.

In light of the negative economic consequences of the GFC, and the increased exposure to the commodification function due to implementation of austerity cuts in state service provision, owner-occupied housing has become an increasingly important source of financial stability and physical security in Britain. Between 2013 and 2016, £4.6bn of equity loans were issued under the HTB programme, which supported the private housing market by facilitating over 100,000 home purchases worth £17.7bn (Wainwright, 2017). Therefore, the main success of the HTB programme could be said that it temporarily solved the primary problem with ABW systems, as it maintained access to the private housing market, whilst also sustaining the necessary increases in house prices to allow for equity withdrawals (Doling and Ronald, 2010). However, maintaining access to private housing is so vital to maintaining financial and physical security in the post-crisis landscape that many working families in Britain have chosen to reduce their food expenditure to meet their mortgage payments and avoid the negative threat of debt default (Johnson, 2014). This emphasis on the home as a source of value and security suggests that although ABW was initiated by the New Labour government, the understanding of the home as a financial asset that can fund welfare goods was reproduced by the Coalition government by their cuts in welfare spending and their direct state support for private homeownership through the HTB policy.

Since the Big Bang of late 1986, the financial sector has become an increasingly important area of the British economy, which is highlighted by the 383 per cent increase in the gross value added to GDP from financial services between 1987 and 2012 (ONS, 2017). As of 2012, financial services contributed to approximately 9.6 per cent of national output, with a further 4.9 per cent provided by complimentary and associated services, such as “legal services, accountancy, management consultancy, dispute resolution and maritime services” (City of London, 2013, 4). Britain has risen to become is “the world’s largest exporter of financial services, generating a trade surplus of over £47bn in 2011”, and in the same year the financial sector contributed £63bn in tax (11.6 per cent of all tax receipts) to the Treasury (City of London, 2013, 4). Additionally, the British financial sector and associated services of the City of London are a key element of the global wealth chain, which can be understood as “linked forms of capital seeking to avoid accountability during processes of pecuniary wealth creation” (Seabrooke and Wigan, 2014, 257). The particular arrangements of the British financial sector may, therefore, be thought of in terms of a competition state, which seeks to attract capital into the financial sector, which can be processed and then generate incomes for financial institutions, employment for workers, and revenues for the state through corporation and personal income taxes. However, a key foundation of the revenue of the financial sector has been the huge volume of mortgage credit taken out by the British public, which increased by over 2,800 per cent between 1979 and 2012, and the level of outstanding mortgage debt in 2012 stood at 87 per cent GDP. Therefore, direct government support for mortgage provision and the private housing sector may be linked to a desire to maintain capital inflows into the City, which are to be processed by, and generate income for, financial institutions.

The British reliance on the financial sector has been described as a “finance curse” akin to the Dutch Disease, which “has crowded out manufacturing and non-financial services, leeched government of skilled staff, entrenched regional disparities, fostered large-scale financial rent-seeking, heightened economic dependence, increased inequality, helped disenfranchise the majority and exposed the economy to violent crises” (Christensen et al. 2016, 2). The “finance curse” can be linked to the GFC, as although British mortgage products were not widely securitised (see chapter seven for more detail), the City of London was a global centre for the trading of mortgage backed securities, which exposed British financial institutions to the US sub-prime mortgage crisis and exaggerated Britain’s own credit crunch. The severity of the GFC suggests that the self-regulation of the financial sector by the FSA was lacking, as were the responses of the Bank of England and the Treasury, who were also involved in regulatory decision making (Mizen, 2008). Furthermore, the weakness



of this tripartite system was a direct result of not “knowing who was ultimately “in charge”” during the unfolding events of crisis (Mizen, 2008, 558). Therefore, whilst the financial sector is important to the wider British economy, the combination of Britain’s finance curse and the costs and failures of the financial system manifested by the GFC, suggest that there are legitimate questions as to why there has not been any meaningful reform of the financial sector in Britain.

The “finance curse” can also be linked to the level of the individual through the importance of the home as a financial asset in Britain, which has largely occurred due to the increased private provision of welfare services under systems of ABW. In line with the reduced wage share observed in Britain between 1979 and 2012, mean nominal wage growth in Britain since the GFC has been approximately 2 per cent per year, yet median wage growth is even lower, potentially as low as zero per cent (Blanchflower and Machin, 2016). Furthermore, between 2007 and 2015, real wages in Britain decreased by 10.4 per cent, which is a reduction only equalled by Greece (TUC, 2016). It is in the context of low wage growth that the bottom-up consent for the continued deregulation of the financial sector, no matter the costs or consequences, must be understood. Low wage growth has made accessing many private welfare services, such as secondary education or university tuition, purely out of income from employment, beyond the means of many households. Therefore, the increased commodification of welfare state services through ABW, combined with a sustained decrease in real wages after the GFC, have placed an even greater emphasis on the financial gains from private homeownership to access private welfare goods, which are largely only accessible via mortgage credit (Monaghan and Nardelli, 2014). Access to private welfare goods through the financial gains from homeownership is dependent on either selling the property asset or leveraging the home using mortgage debt. The reliance on mortgage debt to access private welfare services suggests that Britain may be understood as a type of financialised “debtfare” state, which also directs vast sums of revenue to the financial sector and contributes to British mortgage-led growth (e.g. Soederberg, 2014). Furthermore, the ability to access mortgage debt to augment wealth from the housing asset in systems of ABW is contingent on the individual’s employment status, as one must have an income from employment to qualify for a mortgage loan.

Here there is a link to Labour’s “New Deal” for welfare provision, which reproduced the “will to work” in the lowest earners and welfare recipients in Britain, and can be thought of as a form of Schumpeterian workfare state (Jessop, 2003). The need to engage with mortgage finance to access welfare goods and services through the ABW debtfare state is

similarly contingent on the members of the household having paid employment. Therefore, the privatisation of welfare services that are largely only accessible by engaging with mortgage debt has established a workfare-debtfare hybrid state in Britain that restricts access to welfare goods based on the individual's employment status, which also generates vast sums of revenue for the financial sector. Without maintaining access to homeownership via the deregulation of mortgage finance, and supporting high property values, many working families would be excluded from accessing private welfare services, which would reduce the widespread bottom-up support for the private provision of welfare goods implemented by the Conservative governments, New Labour, and the Coalition, who were in power between 1979 and 2012. Subsequently, the government and the public both have incentives to maintain deregulated mortgage markets to meet their own specific objectives. However, as described in the previous section, and evidenced by the results of the quantitative chapter of this thesis, the disciplinary effects of taking on mortgage debt to access the financial gains from homeownership may further depress wage growth. Therefore, the reliance on mortgage finance to access welfare services due to low wage growth in Britain may establish a negative feedback loop, which could be described as a "mortgage finance curse", that reinforces low wage growth, forging an even greater dependence on maintaining access to mortgage debt.

## **Conclusion**

The results from the quantitative analysis of chapter four demonstrated that there was a negative causal relationship between an increase in mortgage credit and a reduction in the wage share of GDP in the liberal capitalism of Britain between 1979 and 2012. Based on the use of retroductive process tracing, this chapter sought to establish the conditions that would be necessary for such a causal mechanism to be in place in Britain during this period. This chapter performed a qualitative analysis of the British political economy between 1979 and 2012, and demonstrated that the Thatcher government strongly promoted private homeownership as the ideal housing tenure to the British public as part of their hegemonic vision. Although the government promotion of private housing shifted tenure preferences towards homeownership, it may not necessarily be understood as a policy priority in itself. Alternatively, the Thatcher government's hegemonic vision placed primacy on halting Britain's economic decline that had marginalised the country's relative importance in the global political economy. As productivity in the manufacturing sector declined in the first four years under Thatcher, the government looked to redress the economic situation by

stimulating the financial sector. A series of deregulation policy measures were passed between 1983 and 1986, which resulted in the Big Bang, and the City of London was reinstated as a global financial centre that conducted huge volumes of trade in financial goods and services.

A key component to stimulating the domestic financial sector was based on the encouragement of the public to engage with financial services. Although share ownership increased dramatically in the 1980s due to a series of privatisations of state-owned companies, it is the promotion of private housing that more broadly supported the domestic financial sector, as the increase in homeownership created a strong demand for mortgage debt. As part of the Big Bang, the Thatcher government passed a series of mortgage deregulation measures, which significantly widened access to homeownership. Between 1979 and 1990, the total amount of mortgage debt in the British economy increased by approximately 650 per cent, which generated vast sums of revenue for the financial sector, and stimulated the economy. Therefore, rather than British economic growth being led by household debt in general (e.g. Stockhammer, 2016), the promotion of private housing by the Thatcher government can be linked to the desire to stimulate the British economy through a mortgage debt-led accumulation regime, which increased the capital share of GDP at the expense of wages. Engaging with mortgage credit has also been identified as a mode of behaviour regulation, which disciplines borrowers to avoid the negative threat of debt default. The disciplinary mechanisms of mortgage finance also integrate the public into the wider system of liberal capitalism by shifting their identity away from workers to homeowners, which changes labour market preferences from high wage growth to demanding stable employment. Interviews with key political actors have suggested that mortgage credit was used as such by the Thatcher government to integrate disruptive trade union members into liberal capitalism, and shifting their labour market preferences to demand stable employment over engaging in strike action for higher wages.

The mortgage-led accumulation regime and mode of behaviour regulation, which forms a key part of the Thatcherite hegemonic vision, was reproduced by the governments that succeeded the Conservatives. After election to office, New Labour introduced a series of ABW policies that relied on the private home as a vehicle to access private welfare services, such as healthcare, education and pensions. New Labour's ABW policies were reproduced by the Coalition government, and access to private housing was supported through the HTB programme. The reliance on mortgage debt to access private welfare services suggests that Britain may be understood as a type of financialised "debtfare" state, which also directs vast

sums of revenue to the financial sector and contributes to British mortgage-led growth. Yet, the reliance on mortgage finance to access to private welfare through the ABW debtfare state is contingent on the members of the household having paid employment. Therefore, the privatisation of welfare services that are largely only accessible by engaging with mortgage debt has established a workfare-debtfare hybrid state, which restricts access to welfare goods based on the individual's employment status and generates vast sums of revenue for the financial sector, meeting and reproducing the key objectives of the Thatcherite hegemonic vision. Therefore, the analysis from this chapter suggests that the presence of a mortgage-led capital accumulation regime that disciplines borrowers to accept lower wage growth would be the condition that explains the negative relationship between an increase in mortgage credit and the reduction of the wage share observed in Britain by the quantitative analysis in chapter four.

## Chapter 6

### The Role of Mortgage Credit in the Danish Political Economy

*“All depends upon whether one is willing to labour and be heavy laden”*

Søren Kierkegaard (2013, 62-63)

The results from the quantitative analysis in chapter four have demonstrated that while there is a statistically significant negative relationship between an increase in the total outstanding mortgage stock and a reduction in the wage share of nation income in the liberal capitalism of Britain and the USA, there is no such relationship in the non-liberal markets of Denmark and Sweden. The results of the quantitative analysis are not to be interpreted in a manner to suggest that Denmark is not a capitalist state, but, rather, they merely demonstrate that mortgage credit has not been used as a direct technique to encourage capital accumulation at the expense of wages in Denmark. Whilst the results from the regression analysis showed that there was no relationship between an increase in mortgage credit and the wage share in the Danish case, the analysis of descriptive statistics in chapter four did reveal a vast increase in the amount of mortgage debt in the Danish economy between 1979 and 2012, particularly from 2001 to 2008. In 2012, the total outstanding mortgage debt in Denmark stood at 153.29 per cent of GDP (at factor cost), which is significantly greater than the other cases examined in the quantitative chapter. The facilitation of mortgage credit is the main way in which a state can intervene in the private housing market, yet the motivations for the deregulation of mortgage finance by the Danish state cannot be linked to a goal of capital accumulation at the expense of wages, as identified in the British case through the quantitative analysis in chapter four and qualitatively in chapter five.

This chapter will perform a qualitative case study analysis of Danish financialisation, using a theoretical framework based on the SRA. Retroductive process tracing will be used as a methodological tool to explore the motivations for the Danish state intervention in the mortgage market, and to explain the actions of situated agents who engage with the political and economic structures of Danish financialisation. The research pertaining to the motivations for state intervention in the deregulation of mortgage credit is dominated by Neo-Weberian scholars (e.g. Schwartz, 2012), who suggest that governments deregulate mortgage credit to widen access to the social norm of private owner-occupied housing, as well as the

financial gains from private homeownership. Therefore, the first section of this chapter will describe the private housing market in Denmark, which has been identified as the preferred housing tenure for Danish citizens. Although private housing is popular in Denmark, the owner-occupation rate has actually declined since the 1970s, whilst other tenures have become increasingly popular. The decline in private homeownership, especially in light of the accompanying increase in mortgage debt, questions whether private homeownership is a dominant social norm, and whether there has been any political will to promote such a tenure. The second section will describe the role of mortgage credit in Denmark, and outline alternative possible motivations for the deregulation of the mortgage market by the Danish government that has led to the observed increase in mortgage debt. Here the document analysis and qualitative interviews with political and economic elites suggest that mortgage credit has been used to meet specific economic growth objectives, such as demand management, as well as monetary policy goals.

Although the Danish system of mortgage credit may be linked to demand-side economic growth objectives, the third section will describe how mortgage credit has been used as a form of monetary policy to solve Denmark's erstwhile long-standing Balance of Payments deficit, which had been an issue since the end of World War Two. Whilst the first three sections describe the importance of the mortgage system to Denmark's economy, the fourth section will examine how mortgage credit fits within the wider Danish political economy, both internally and externally. Internally, the use of mortgage credit as a technique to regulate the Danish economy may be considered a means of mediating the corporatist accumulation regime in Denmark by reproducing the wider conditions for economic growth (Panitch, 1980). In the Danish corporatist tradition, economic growth is in the mutual interest of both employer associations and trade unions, which are key actors in the Danish tripartite system, as it provides opportunities for capital investment as well as employment (Panitch, 1980, 176). Whilst externally, there is an international aspect to the political economy of mortgage credit in Denmark, as the decision by Danish political and economic elites to internationalise to the global and European financial system has limited Denmark's internal policy autonomy. Therefore, changes in mortgage regulations may be understood as a technical mechanism used by the Danish government to intervene in the domestic economy, as traditional monetary and fiscal policy routes of intervention are not viable options. The results of the analysis demonstrate that mortgage credit is used by the Danish state as a means of meeting a wide range of social, economic and political objectives that go beyond the mere promotion of a specific housing tenure.

## Housing Tenures in Denmark

Private owner-occupied housing is widely considered the optimal tenure preference in Denmark, and, much as in other countries, private homeowners are often the wealthiest in Danish society (Scanlon, 2011b; Nankervis, 1985, 31). The private housing stock largely consists of single-family homes, multi-family houses (such as duplexes), as well as multi-family condominium blocks, which are owner-occupied flats (Scanlon, 2011b). Privately owned second homes are also very common in Denmark, and they are often seasonal homes (*sommerhuse*) that are subject to usage regulations by the Danish government (Palang et al, 2007, 156). Homeownership provides the owner with specific property rights that allow the home to be traded and put up as collateral for loans, with all capital gains or losses accruing solely to the owner (Erlandsen et al, 2006, 19). In economic terms, private owner-occupied housing is considered a major source of wealth accumulation in Denmark, and makes up a large portion of worker's financial portfolios (Erlandsen et al, 2006, 15). Although there are strong property rights surrounding homeownership, there are severe restrictions placed on non-domiciled foreign ownership of private first and second homes in Denmark, which supports the supply of Danish homes (Palang et al, 2007, 156). Additionally, the Danish government supports owner-occupied housing through the provision of various subsidies to private homeowners, such as the ability to deduct a proportion of their mortgage interest payments from their income taxes, as well as levying relatively low property taxes in comparison to other countries and other assets (Erlandsen et al, 2006).

The facilitation of mortgage credit is often considered the main way that the state can widen access to private housing (e.g. Fahey and Norris, 2007), which is also the case in Denmark (Interviewee 14, 2016). In Denmark, funding for mortgage credit is provided using a system of covered bonds issued by mortgage lending institutions whose configuration is very different from the Anglo-American mortgage banking model (see the analysis in chapter seven for a full comparative account of the British and Danish mortgage systems). Danish mortgage institutions provide credit for each tenure type; however, there are restrictions on certain lending practices. For example, lending on co-operative housing from mortgage institutions tends to only be available to the ownership society itself, and not to an individual borrower. If a borrower wishes to buy into a housing co-operative in Denmark, the loan is usually provided by a traditional bank, rather than a mortgage institution. Therefore, mortgage lending in Denmark is dominated by purchase and refinance loans made on private owner-occupied housing (IMF, 2006; Rasmussen, 2014). As demonstrated by table 4 in

chapter four (page 98), there has been a 970.63 per cent increase in the nominal outstanding mortgage stock in Denmark between 1979 and 2012, which has almost doubled the ratio of mortgage debt as a share of GDP in this same time period, from 79.96 per cent in 1979 to 153 per cent in 2012.

The preference for owner-occupied housing has led to Denmark being described as a tenure-biased country in favour of private ownership, much like Britain (Scanlon, 2011; Schwartz and Seabrooke, 2008). Neo-Weberian scholarship suggests that a government would seek to deregulate the mortgage market to widen access to the social norm of private owner-occupied housing and the material gains from the home as a financial asset, in order to generate support for political party rule (Seabrooke, 2002; Schwartz, 2012). From a Neo-Weberian perspective, the increase in mortgage credit observed in Denmark between 1979 and 2012 should equate to an increase in the level of private homeownership to develop bottom-up consent to political party rule.

	1960	1970	1980	1990	2000	2004	2010
Private rental	39.8	34.7	22.1	18.4	18.0	17.4	16.0
Owner-occupied	45.7	48.6	52.1	51.7	51.3	50.5	48.0
Co-operative	-	-	2.1	4.5	6.3	6.7	16.0
Social rental	9.8	14.5	14.4	16.8	19.1	19.0	20.0
Other – Misc.	4.7	2.2	9.3	8.6	5.3	6.4	-

Table 8: *Housing Tenures in Denmark: 1960-2010. Source: Scanlon (2011b, 97)*

Table 8 shows the proportional changes in housing tenure rates in Denmark between 1960 and 2010, and the largest decline in any housing tenure during this period was observed in the private rental sector, which decreased dramatically from almost 40 per cent in 1960 to 16 per cent in 2010. Part of the reduced demand for private rented housing in Denmark stems from the legislation enacted in the 1970s that allowed private rental tenants to collectively purchase the property they inhabited, which created the co-operative housing tenure (*andelsboliger*) (OECD, 1999). Owners buy into the ownership society (or co-operative) by paying a relatively low fee for the property, and, in addition, owners pay a low rent to the co-operative (Skak, 2006). The foundation of the co-operative housing tenure is that member of the co-operative owns an equal share of a single property or multi-unit complex, but they do not hold the dedicated title to a specific unit (Nankervis, 1985, 29). Therefore, co-operatives are a form of in-direct ownership, unlike private owner-occupied housing (Erlandsen et al, 2006, 15). Subsequently, the demand for co-operative housing increased from 2.1 per cent in



1980, roughly when first introduced, to 16 per cent in 2010. Another reason why private rental demand has decreased is the increased quality of social housing, which has led to a rise in demand from 9.8 per cent in 1960 to 20 per cent in 2010.

In 1960, private owner-occupied housing was the dominant form of housing tenure with 45.7 per cent, which increased to 48 per cent by 2010. Although the rate of private ownership did increase from 1960, the rate of owner-occupied housing rate actually declined in the years of observation in this analysis of financialisation: In 1980, the owner-occupation rate stood at 52.1 percent and declined to 48 per cent in 2010. Despite the vast increase in mortgage debt in the Danish economy that has occurred since 1979, the data from table 8 demonstrates that the homeownership rate has actually declined since the 1970s, which questions whether private homeownership can be considered as a desirable and dominant social norm in Denmark. Whether there has been any significant political will to specifically widen access to private housing in Denmark is also questionable. Traditionally, Danish political parties can be linked to specific housing tenure preferences, where right-wing parties are said to prefer private ownership and rental tenures, while left-wing parties place an emphasis on the public provision of housing (Leth-Sørensen, 2004, 143).

In comparison to the right-wing political parties in liberal capitalist countries, such as the Conservatives in Britain that have strongly promoted private housing, in Denmark “you might hear politicians from the Liberal side from time-to-time claim that is a good thing that people own their own house because they take responsibility etc., but this is very relaxed in Denmark. It is not a major Liberal thought; housing for them is not an ideological battlefield”, as “it is not a discussion in Denmark to create an ownership society” (Interviewee 14, 2016). Therefore, a “theoretical discussion about housing tenure is not really a Danish discussion”, as “we do not have the same [as Britain], almost religious, belief that it would be better for society if you owned your own house” (Interviewee 14, 2016). As the observed increase in mortgage credit between 1979 and 2012 did not increase the diffusion of owner-occupied housing in Denmark, and it seems there is little will from Danish politicians to widen access to private housing, the Neo-Weberian emphasis on the liberalisation of mortgage credit as a mechanism of bottom-up consent may be called into question. The vast increase in mortgage credit, enabled by the Danish state, may be linked to other objectives that go beyond the facilitation of access to private housing.

## **Housing and Demand Management in Denmark**

This section marks the start of the empirical use of retroductive process tracing, as it seeks to establish the conditions as to why, despite the reduction in homeownership, there has been a vast increase in mortgage debt, and why that has not had any negative effect on the wage share of national income in Denmark. Regardless of tenure, the Danish housing market has been highly regulated and subsidised by the central government since 1945, whose interventionist policies can be linked to a variety of wider objectives that go beyond the provision of housing itself (OECD, 1999; Erlandsen et al, 2006). The Danish government has placed an emphasis on providing quality housing at “affordable and predictable prices” using a variety of housing tenures, which can be linked to the desire to improve distributional outcomes for the poorest in society (Ministry of Economic and Business Affairs, 2002, quoted in Erlandsen et al, 2006, 13; OECD, 1999, 89). As with the development of many European welfare state systems, social housing in Denmark was built to overcome social problems from overcrowding in urban areas, such as poverty, high crime, and poor health outcomes (OECD, 1999, 89; Interviewee 14, 2016). For example, after World War Two, many of the central areas of Copenhagen, which now have the highest house prices, were considered slums, and there was a huge drive to build social housing to provide accessible good quality housing (Interviewee 14, 2016). Additionally, much of the legislation introduced in the 1970s that led to the development of co-operative housing was initially aimed at improving the quality of life for those in private rental housing, in terms of living standards and reducing costs (Nankervis, 1985, 29). The facilitation and promotion of social and co-operative housing tenures by the Danish government to solve social problems, using housing as a mechanism, explains the increased adoption of these tenures observed since 1960, as demonstrated in table 8.

The Danish government has also used housing as a key instrument of economic policy, by changing restrictions on new construction, as well as regulations on the sales of property (Leth-Sørensen, 2004, 141). Housebuilding, no matter the tenure type, has been identified as a specific part of a “stop-go” economic policy used by the Danish government, which can be understood as a form of Keynesian demand management (Interviewee 14, 2016). In times of economic downturn, the government would reduce restrictions on private house building or subsidise public housing provision, with the specific aim of increasing employment and national output (Interviewee 14, 2016; Leth-Sørensen, 2004, 141). Alternatively, if the economy was thought to be overheating, restrictions on housebuilding

were put in place to reduce output and employment, the negative social and economic effects of which would have been diminished by the strong welfare provision by the Danish state. The use of housing as a “stop-go” economic policy explains why owner-occupied housing has been understood as being both restricted (e.g. Nankervis, 1985, 31), as well as promoted (e.g. Scanlon, 2011b) by the Danish government at different periods of the twentieth century. Therefore, in Denmark “it is not so much a discussion about whether you want to own or be a tenant, it is more a discussion about what the government can achieve” by promoting different housing tenures at different periods (Interviewee 14, 2016). Additionally, promoting house building also supported the growth some of Denmark’s largest insulation and concrete firms, which would have further increased employment (Interviewee 14, 2016). Although housebuilding has been used as a means of demand regulation by the Danish government, such practices have become much less common since the 1970s.

The timing of the decline of government interventions in the housebuilding sector coincides with a rise in government interventions in the mortgage market, which have become increasingly common since the 1970s (Knudsen and Sand, 2004). The underwriting standards on Danish mortgages are considered to be highly stringent, which is in part due to the close regulation of the Danish mortgage market by the central government, as it determines technical lending criteria, such as the maximum loan-to-value ratio and loan duration terms (Lea, 2010, 18; Svenstrup and Willemann, 2006). The vast increase in mortgage credit observed between 1979 and 2012 was largely caused by the implementation of a series of mortgage deregulation measures adopted by the Danish government after 1989, which is when banking regulations were adjusted to fit EU-wide legislation (Lunde, 2016). Since 1989, there have been two key policies implemented by the Danish government that significantly deregulated the mortgage market. The first important mortgage deregulation measure implemented by the Danish government was the 1992 legislation that allowed private homeowners to use equity withdrawals for any purpose, without prior approval from the lender (Lunde, 2016; Jensen et al, 2015, 6). Prior to the 1992 legislation, mortgage institutions in Denmark would only release equity built up in the home for renovations, and they required the borrower to provide explicit proof of any costs using invoices and receipts (Interviewee 11, 2016; Interviewee, 14, 2016). The purpose of these restrictive lending practices was to diminish consumption spending and maintain a low-interest rate environment (Interviewee, 14, 2016).

The 1992 legislation liberalised home equity withdrawal mortgages, which allowed the homeowner to draw on up to eighty per cent of the equity in their home and use it for any

purpose they saw fit, including non-home related consumption on goods such as cars and holidays (Jensen et al, 2015, 6; Interviewee 12, 2016). The 1992 mortgage reform also increased the duration of the mortgage repayment term from twenty to thirty years, which reduced the financial burden of the monthly repayment costs of the loan (Jensen et al, 2015, 6). Although the mortgage reforms introduced in 1992 were instigated at a time when mortgage markets across advanced economies, particularly in Europe, were undergoing a broad process of liberalisation, the timing of the introduction of these reforms in Denmark “appears to be motivated by its potential stimulating impact to the economy during the recession of 1992” (Jensen et al, 2015, 6). From a Keynesian demand management perspective, the 1992 mortgage reforms allowed the proceeds from home equity withdrawals to be spent on non-housing goods and services, which, *ceteris paribus*, would have increased consumption and led to an increase in national output. Additionally, the increase in the mortgage term from twenty to thirty years in the 1992 reforms reduced the financial burden of the mortgage repayment costs, which would have increased the available disposable income for each household that refinanced their mortgage onto a longer term. Based on the marginal propensity to consume for each household, which would be higher for low-income groups, the increase in disposable income would also have increased national output through the consumption channel. The estimates of the immediate effects of the 1992 mortgage reforms suggest that total consumption spending increased by 0.3 per cent from every 1 per cent increase in the aggregate total household debt (Leth-Petersen, 2010).

The 1992 home equity withdrawal reforms have also been linked to an increase in entrepreneurship in Denmark (Jensen et al, 2015). Innovation-based start-ups and small-medium enterprises (SME) face challenges to accessing investment capital due to “their lack of collateral, cash flows and track record” (OECD, 2014, 69). In Denmark, the corporate sector is dominated by SMEs, who have faced challenges to accessing credit in the past (OECD, 2014; IMF, 2007b). The 1992 mortgage reforms allowed entrepreneurs and SMEs to access credit based on the use of their private home as collateral, which then allowed them to bypass the stringent screening process implemented by banks (Jensen et al, 2015). According to the IMF (2007b, 6), mortgage credit has been “frequently used” by SMEs in the private corporate sector to access investment capital, which could lead to an increase in national output from an increase in investment and employment and is particularly important in times of an economic downturn. The timing and content of the Danish 1992 mortgage reforms suggest that the deregulation of mortgage credit may be considered a technique used by the Danish government to improve the overall position of the economy.

The second key mortgage deregulation measure was the introduction of ten-year interest-only periods on mortgage loans, which occurred in 2003 (Lunde, 2016; Interviewee 11, 2016; Interviewee 12, 2016). Prior to 2003, homeowners were only able to obtain fully amortised mortgages that paid off the principle and interest owed for the duration of the loan, which, at the time, was normally a thirty-year term in Denmark. The introduction of interest only loans in 2003 allowed borrowers to only pay the interest charges on the mortgage for the first ten years of the loan, then after that, the borrower would pay the fully amortised payment for the remaining twenty-year term. Private housing costs have been increasing in Denmark since the early 1990s, which has coincided with a decline in private homeownership for those aged 19-29 (Erlandsen et al, 2006, 8; Skak, 2006, 3). In an interview with a member of the board of the Danish Central Bank (*Danmarks Nationalbank*), it was suggested that the Danish government was motivated to implement the deregulation measures that introduced interest-only mortgages to specifically widen access to private housing for this younger demographic (Interviewee 11, 2016). The logic behind the introduction of interest-only mortgages could be linked to the theory of the lifecycle of earnings from employment (Interviewee 11, 2016). From this perspective, mortgages were deregulated to reduce private housing costs for individuals in the earliest stages of their career, when their earnings were at their lowest, by allowing them to only pay the interest portion of their mortgage payment (Interviewee 11, 2016; Interviewee 16, 2016). Although there were concerns that introducing interest-only loans may increase house prices, the Danish government “denied that these interest only loans had any impact on house prices”, thereby allowing lower-income early-career borrowers to access private housing (Interviewee 16, 2016).

Whilst the introduction of interest-only loans may have sought to widen access to private housing for the younger demographic, the mortgage product was widely adopted in Denmark. In 2004, one year after the introduction of interest-only mortgages in Denmark, only 10 per cent of mortgages were considered long-term interest-only products, yet by 2013 that number had increased significantly to 57 per cent (The Economist, 2014). However, a comparison of descriptive statistics on the rate of owner-occupied housing for the younger age demographic shows that in 2000, just under 40 per cent of 20-24 year olds owned their own homes, which declined to 37.8 per cent in 2012 (Skak, 2006, 3; Statistics Denmark, 2016a). Additionally, in 2000 approximately 43 per cent of individuals aged 25-29 were owner-occupiers, which decreased significantly to 31.6 per cent in 2012 (Skak, 2006, 3; Statistics Denmark, 2016a). The reduction in private homeownership for this younger

demographic may be due to the sharp increase in house prices after the introduction of interest-only loans in Denmark, which occurred contrary to the expectations of the Danish government. Between the first quarter of 2003 and the third quarter of 2007, mean house prices increased by 175.78 per cent in Denmark, which would have been even more pronounced in densely populated areas, such as Copenhagen (Statistics Denmark, 2016b).

Although the introduction of interest-only loans would have allowed many to reduce their mortgage payments, the increase in house prices may have made access to private housing unaffordable for potential early-career buyers. These figures, combined with the overall decline in the homeownership rate between 1979 and 2012, suggest that the introduction of interest-only mortgages may not have widened access to private housing in Denmark for either the younger demographic or the Danish population at large. However, the introduction of interest-only mortgages in 2003 that would have reduced mortgage costs was linked to a potential increase in the domestic economy through the consumption channel of national income by a senior economist of one of Denmark's largest mortgage institutions (Interviewee 16, 2016). In an interview, the economist stated: "I think that interest only loans may have actually given a boost to the economy, because at the end, you were cleared to pay the loan at a fixed rate, but you chose an interest only, maybe even at an adjustable rate mortgage, and then you had more money every month than you were expecting to have, and that was good for the Danish economy" (Interviewee 16, 2016). Whilst there is a motivation for the government to intervene in the mortgage market to boost the economy, there are questions as to the intentionality of these government interventions. The idea that changes in mortgage regulation could be linked to the motivation by the Danish state to boost national output was confirmed in an interview with a former senior figure in the Danish Ministry of Economic Affairs, now the Ministry of Business and Growth (*Erhvervs-og Vækstministeriet*), who stated that "economic growth has been the main goal of the mortgage reforms that have taken place since 1970" (Interviewee 15, 2016). Overall, this qualitative assessment has demonstrated that mortgage credit plays a central role in the Danish economy, as during an economic downturn, the Danish government may choose to liberalise access to mortgage credit to increase consumption activities, and, subsequently, GDP growth (Leth-Sørensen, 2004, 141). Therefore, the deployment of mortgage credit by the central government allows them to meet a wider objective of economic growth, which goes beyond the promotion of private housing itself.

## Mortgage Credit and Monetary Policy in Denmark

While mortgage credit has been used in Denmark as a means of Keynesian demand management, “changes in the conditions of mortgage loans have been a frequently used instrument in monetary policy” (Interviewee 15, 2016). One example of how mortgage credit has been used as a means to influence monetary policy was suggested by the Danish Central Bank representative, who stated that mortgage credit had been used as a means of manipulating the interest rate in the early 1970s (Interviewee 14, 2016). In the late 1960s, Denmark was experiencing a period of rising interest rates, which led the government to establish a low-interest rate environment that would encourage business investment and maintain high employment. In 1969, the “Kurt Hansen report” (*Kurt Hansen-udvalget*) was established to examine how lower interest rates could be achieved, and it suggested that the nominal rate of interest could fall by manipulating the mortgage bond market (Hansen, 1969). The report suggested that the causal mechanism that linked mortgage bonds to the interest rate was similar to the open market operations used by central banks to change the money supply, which would change the interest rate. It was thought that restricting the sale of mortgage bonds would be akin to buying back mortgage bonds, which could increase the money supply and yield on bonds, thereby reducing the interest rate.

To achieve the desired reduction in the interest rate, the government introduced a series of mortgage regulations aimed at restricting credit in the mortgage bond market in 1970, by considerably shortening the maturities of new bonds. Prior to the 1970 reforms, mortgage duration terms could be as long as fifty or sixty years, resulting in very low monthly payment amounts. After the 1970 reforms were implemented the maximum term for mortgage credit loans was reduced to thirty years, which significantly increased the monthly mortgage repayment cost, and severely restricted credit access in Denmark. The reforms were understood as a success, as they met their main objective by reducing Danish central bank interest rates from 9 per cent in 1970, to 7 per cent in 1973 (FRED, 2016a). Although, it must be acknowledged that interest rates had incrementally risen to 13 per cent by 1980 in light of the inflation crises of the 1970s. In the interview with the former senior figure in the Danish Ministry of Economic Affairs, it was suggested that the successful results from policies implemented after this report demonstrated that “mortgage credit could be an instrument that could be effective in regulating and affecting demand in the economy. So therefore, not only could it be used to meet sector policy goals by making it easier to access mortgage loans,

easing mortgage conditions and so on, it was also this economic policy goal that actually became part of the mortgage system” (Interviewee 15, 2016).

A second example of the Danish government’s use of domestic mortgage credit as a form of monetary policy intervention can be seen in the Danish state’s solution to their long-standing balance of payments deficit, which had been unstable since the 1950s (Interviewee 15, 2016). Whilst encouraging economic growth, improving rates of employment, and maintaining price stability are often considered main economic policy objectives for many states, a long-term balance of payments disequilibrium can undermine these economic objectives, which can be highly problematic, especially for small states such as Denmark (van der Merwe, 2002, 2; Katzenstein, 1985). Throughout the 1970s and the early 1980s, Denmark suffered from a persistent balance of payments deficit, which had doubled in size twice between 1970 and 1979, and the cause of which was largely attributed to the repeated oil shocks of the 1970s (Johansen, 1987, 165-167). The balance of payments deficit was causing a drain on foreign currency reserves held by the Danish central bank, which meant that the current account deficit could only be sustained through increased government borrowing and was considered unsustainable in the long-run. Whilst mortgage credit had been identified as a means of manipulating the domestic interest rate in Denmark, it was also thought that changes in the mortgage model could be linked to the balance of payments deficit (Hansen, 1969). The original IMF monetary approach model for dealing with structural balance of payments problems, which was widely used, highlighted two exogenous variables that could be linked to the demand for domestic currency; changes in exports and domestic bank credit creation (Polak, 1997, 5). States are thought to experience a balance of payments deficit when they have a trade deficit, as payments for imports in a foreign currency exceed payments received for exports. The monetary approach model suggests that although a state could have a current account deficit coupled with a positive financial account balance, the cause may not necessarily be due to a reduction in foreign demand for domestic goods, services or assets. Alternatively, a persistent balance of payments deficit could be the direct result of excessive domestic credit creation, causing money to leak from the domestic economy. Therefore, according to the monetary approach, “control over the expansion of credit can achieve a desired balance of payments result, [which] control over the money supply cannot” (Polak, 1997, 7).

As mortgage finance was the largest single source of domestic credit in Denmark at the time, it was thought that a reduction in domestic mortgage credit would lead to a reduction in the balance of payments deficit (Hansen, 1969; Interviewee 14; 2016).



Therefore, in an attempt to solve the persistent balance of payments deficit, the Danish government implemented a series of policy measures in 1986 known as the “potato package” (Knudsen and Sand, 2004). The 1986 reforms further reduced the maximum loan term from thirty years to twenty years, and mortgages had to be repaid in a combination of callable annuities and serial-loan bonds (Knudsen and Sand, 2004, 37). As with the 1970 reforms, the 1986 measures increased the monthly mortgage repayment amount, which resulted in a severe reduction in the creation of domestic mortgage credit.

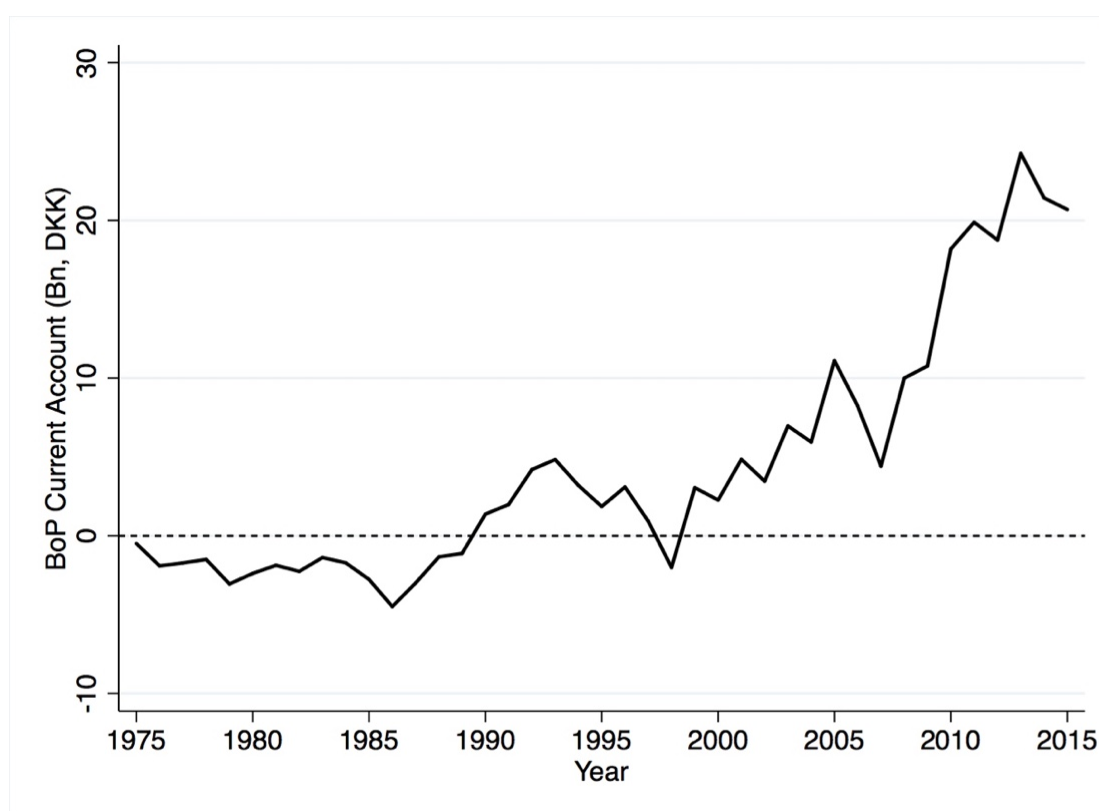


Figure 5: Denmark's Balance of Payments, 1975-2015. Source: World Bank, 2016.

Figure 5 depicts Denmark's Balance of Payments current account position between 1975 and 2015. The chart demonstrates that Denmark had suffered a deteriorating Balance of Payments deficit between 1975 and 1986, but it improved after the implementation of the 1986 reforms, and reached a surplus in 1990, which has remained consistent until 2015, except in 1998. The implementation of the 1986 reforms occurred at a time when Denmark had been experiencing a steady rise in house prices, but the restriction in mortgage credit “gave rise to a big, big crash in house prices, and the big economic financial crisis in Denmark in the end of the 1980s; there were huge losses in the banks and also in the mortgage institutions, and economic activity came to a standstill. So, for about 6 years between 1986 and 1992,

production was actually the same every year, but maybe at a declining rate” (Interviewee 15, 2016).

In light of such negative consequences, it was put to the former senior figure in the Danish Ministry of Economic Affairs that it seemed strange that the policy was enacted, to which he replied: “It was considered a success, because it meant that the balance of payments deficit actually disappeared. ... it was a big, big economic change, which meant an increase in unemployment, but on the other hand it provided a permanent solution for cutting down on demand and keeping down demand for this six-year period. It meant that the balance of payments was, for the first time since the 1950s, was actually stabilised, so that was considered a big, big success in that respect” (Interviewee 15, 2016). The acceptance of a rise in unemployment as a cost to achieve a balance of payments surplus marks a significant shift in Danish government policy priorities. Since the end of World-War II in 1945, successive Danish governments have sought to achieve and maintain full employment, as well as a Keynesian welfare state, in the Social Democratic tradition (Huber and Stephens, 1998, 345). As demonstrated in figure 3 (page 102), unemployment increased dramatically after the 1986 reforms were passed; from 5.0 per cent in 1986 to a peak of 9.6 in 1993. The desire for the Danish government to solve the balance of payments problem at the expense of employment suggests that the 1986 implementation of the “potato diet” may be considered Denmark’s own version of the Volcker shock, with developing a balance of payments surplus as a priority, rather than inflation targeting, as with the US Federal Reserve. Additionally, it is only a few years after the 1986 “potato diet” that the Social Democratic Keynesian welfare state would start to transform into a Schumpeterian workfare-based system of welfare provision in Denmark (Damgaard and Torfing, 2010). The restructuring of welfare provision in Denmark is discussed in greater detail in the comparative analysis of British and Danish workfare states in chapter seven.

This analysis of the political economy of Danish mortgage finance has shown that mortgages are not just used to increase output, but rather mortgages can be “effective in regulating and effecting demand in the economy” (Interviewee 15, 2016). Therefore, “the Danish history of economic upturns and downturns has been linked to the liberalisations and tightenings of the Danish mortgage conditions” (Interviewee 15, 2016).

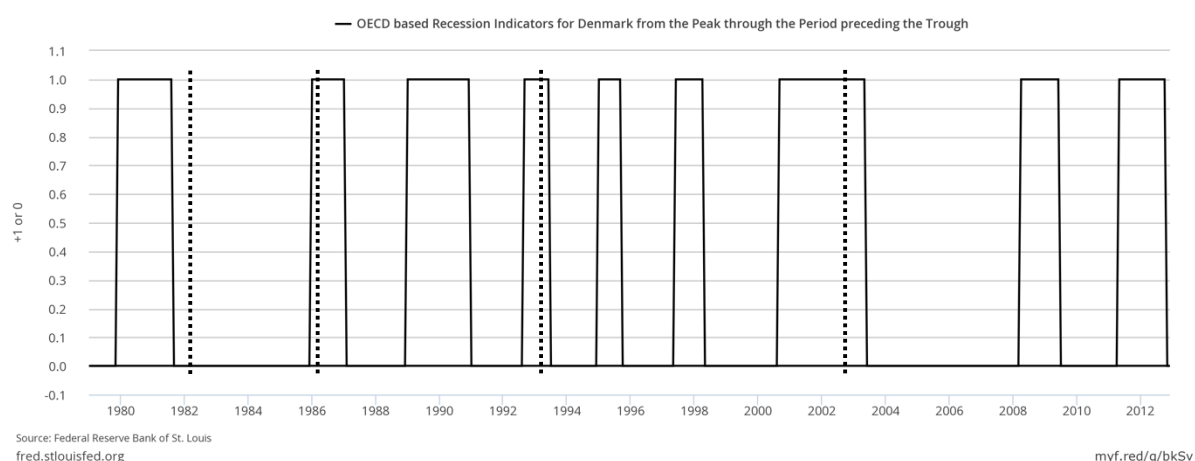


Figure 6: Recessions in Denmark between 1979 and 2012. Source: FRED, 2016b

Figure 6 shows periods of recession in the Danish economy between 1979 and 2012, and the dashed lines indicate the introduction of a piece of mortgage legislation. The data from figure 6 suggests that the timing of the introduction of the changes in mortgage legislation are closely related to periods of economic recession. For example, the 1992 and 2003 reforms were introduced during periods of recession, while the 1986 reform is closely linked to the start of a recession, as it was introduced to reduce aggregate demand. The identification of a relationship between changes in mortgage credit and periods of economic recession supports the statement by the former senior figure in the Danish Ministry of Economic Affairs that changes in mortgage credit conditions are strongly linked to changes in the wider economy.

Although Denmark's balance of payments deficit had reached a surplus by 1990, the Danish economy entered into a sustained period of recession in the late 1980s that had vastly increased unemployment, and, as mentioned earlier in this chapter, mortgage credit was liberalised in 1992 to boost national output as solution to this problem. However, the inter-linked relationship between mortgage credit, national output and the balance of payments meant that an increase in mortgage credit to boost national output could deteriorate the balance of payments position, potentially reversing the progress made through the 1986 reform package. The solution to this problem can be found in the alternative analysis of the balance of payments based on the I-S relation, which suggests that "the current account balance as an indicator of excess or under-spending" (van der Merwe, 2002, 3). Based on the I-S relation, a balance of payments deficit, which can be understood as an excess of spending, can be solved by either increasing private savings, and/or decreasing domestic investment.

The underlying cause of Denmark's current account surplus since the 1990s has been attributed to a savings surplus in the private sector, as well as a reduction in government

investment (Autrup et al, 2015, 41). The savings surplus is the result of a series of policies enacted in the 1990s by the Danish government, which introduced mandatory savings contributions to private labour market pensions, and reduced the level of interest deductibility on private debt, which has encouraged record savings levels in Denmark (Autrup et al, 2015; Mikkelsen, 2016). The Danish government has introduced a series of policies to encourage saving in order to maintain a balance of payments surplus, which is vital for a small state. However, an increase in aggregate saving can diminish consumption, which can have a negative impact on national income. To address the potentially negative impact of this decrease in consumption, the government implemented a series of mortgage deregulation policies, such as the relaxed equity withdrawals and lowered payments from interest-only loans, which could support economic output growth via consumption in the face of increased saving requirements. Therefore, the policy mix of increasing savings requirements and the deregulation of mortgage credit may be understood as a means of ensuring that the economic growth objective is compatible with maintaining a positive current account balance.

The results from this analysis have demonstrated that mortgage policy changes are instigated by the Danish government to meet specific economic objectives; however, the policy changes themselves may be understood as a form of discursive communication that seeks to develop strategic structures to elicit specific individual behavioural changes of those agents situated within those structures. Such a proposition can be understood using the theoretical framework of this thesis (see chapter two for a full description) that suggests that the mortgage policies changes create strategic structures that establish a subject, an object, a set of values, and rules of action, which result in a series of behavioural changes if adopted by those structurally situated agents. In terms of mortgage liberalisations, the subject of the policy is that mortgage credit has become easier to access for Danish citizens, who, as either mortgagees or potential mortgagees, are the objects of the policy. In terms of mortgage liberalisation policies that reduce the monthly repayment burden, such as loan term duration increases or interest-only mortgages, the positive values of the policy establish that engaging with mortgage finance can provide cheaper access to the private home. Additionally, the values established by mortgage liberalisation policies that allowed equity withdrawals have encouraged the homeowner to understand the home in positive terms as a financial asset, which is capable of facilitating access to funds to pay for goods and services previously unavailable to them. The rules of action to access the positive understanding of the home established by the mortgage liberalisation policies require Danish citizens to increasingly engage with mortgage credit, either by purchasing a private home or refinancing their current

mortgage, which may lead to an increase in domestic investment and consumption, thus meeting the economic growth objectives of the Danish government.

Alternatively, whilst the subject and object established by the mortgage liberalisation policies would remain the same for a restrictive mortgage policy, the values and rules of action resulting in a behavioural change would be different. If a restrictive mortgage policy was introduced it would establish a negative set of values surrounding private housing, as an increase in mortgage term or removal of interest-only payments would make private homeownership more expensive to access. Additionally, any restrictions placed on mortgage credit conditions would establish a negative set of values around non-housing consumption accessed through equity withdrawal programs that have either become less accessible or more expensive to the borrower. The rules of action to avoid engaging with the negative values established by the restrictive mortgage policies would require Danish citizens to disengage with mortgage credit, either by not refinancing to withdraw equity, or by choosing not to access private housing. The results of which may lead to a decrease in domestic investment and consumption to meet the wider objectives of the Danish government, such as an adjustment of the balance of payments or a regulation of aggregate demand. Overall, the results of this analysis suggest that there are links between structural changes in government mortgage policy and the desired economic outcome from a specific behavioural change in the public regarding those policy changes. Therefore, these changes in mortgage policy may be understood as a technique of power that have “effectively forced Danish citizens into lifestyle changes, thereby causing shifts in the economy”, which have been enacted by the government to meet their wider economic objectives (Chong, 2010, 387). However, in contrast to the British case, in Denmark the worker may only be considered an indirect object of regulation, as the main object of mortgage policy is to regulate the functioning of the wider economy.

### **Placing mortgage credit within the wider Danish and International Political Economy**

According to a mortgage policy analyst at the Danish financial regulator (*Finanstilsynet*), the Danish mortgage system must be understood to exist within a “specific economic enclosure” that can be linked to a variety of different actors and considerations within the Danish state (Interviewee 12, 2016). At a national level, the most significant actors in the Danish state can be related to the corporatist system of interest representation embedded within the political process, as Denmark has long been considered a state with “strong corporatist traditions”

(Schmitter, 1979; Anthonsen et al, 2011, 118). Corporatist states have a formal institutionalised process of policy-formulation, with a particular emphasis placed on “the shaping of economic policy” (Lehmbruch 1979, 150). Two of the most significant institutionalised actors in Denmark are the employer associations and trade unions, both of which are often considered highly influential in the public policy development and implementation process (Anthonsen et al, 2011, 119). Employers and employees may be considered to have a double-edged relationship, as they are mutually dependent on one another in a capitalist economy, yet they have an antagonistic relationship as they compete for the profits of production, in terms of profits or wages accordingly (Smith, 1976; Marx, 1982). Although the relationship between these groups is, in part, contradictory, by including employer associations and trade unions in the policy arena, corporatism may be considered a means of mediating this relationship by having the two parties focus on their mutual dependence rather than their conflicting interests (Panitch, 1980).

As part of this mediation function, a corporatist state may seek to emphasise the mutual interest of both employer associations and trade unions by reproducing the conditions for economic growth, which benefits both parties by providing opportunities for capital investment as well as employment (Panitch, 1980, 176). It is in this context that the use of mortgage credit by the Danish state may be understood, as mortgage credit has been used as a technique by the Danish government to increase output and improve the balance of payments current account, thereby reproducing the conditions for economic growth. Therefore, the corporatist Danish state has used mortgage credit to reproduce the conditions for capital accumulation for the benefit of a range of actors in the wider economy, rather than for the benefit of a specific capital interest, such as the financial sector, or to provide access to private housing as a social norm, as suggested by Neo-Weberian scholars. This is not to say that all relationships in Denmark can be reduced to the employer-employee relationship, but providing employment opportunities, using mortgage credit as a technique, is but one means of establishing a coherent functioning social formation that includes many different social identities. Therefore, the use of mortgage credit to reproduce the general conditions for capital accumulation by stimulating economic growth may be considered as a single part of a wider policy mix used by the Danish state to mediate the corporatist employer-employee relationship, which may also include the strong provision of welfare state services in Denmark that will be examined in further detail in chapter seven.

Although mortgage credit has been used as a means of effecting the Danish economy, the decision to use mortgage finance as a technique of intervention must also be understood

within an international context, as “the Danish state, society and economic actors are embedded in a wider world that constantly places constraints on Denmark’s freedom to act” (Kaspersen, 2013, 163). The rise of Monetarism since the 1970s has emphasised the importance of adjustments in the money supply as a means of stabilising the economy (e.g. Friedman, 1968). Although mortgage credit has been used as a form of Keynesian demand management, the Monetarist shift requires an alternative set of techniques to be implemented to stabilise the economy. Monetarism places primacy on maintaining price stability through low-inflation, which can be achieved by open-market operations to regulate the money supply, and low-inflation targeting has become the mandate for many central banks around the world, including Denmark. Despite the importance of monetary policy as a means to develop a stable economy, Denmark has faced a series of structural constraints that have placed limits on its monetary policy autonomy.

The economic situation in Denmark was dire in the aftermath of World War Two, as Denmark had a large balance of payments deficit with no foreign currency reserves and no viable means of attaining credit (Kaspersen, 2013, 155). Additionally, Denmark’s main trading partners, Britain and Germany, both faced their own post-war economic challenges, which meant that neither country was able to import enough Danish goods to improve the performance of the economy (Kaspersen, 2013, 153). To improve the economic performance of the nation, Denmark became incorporated into the structural system of embedded liberalism based on the Bretton Woods institutions (e.g. Ruggie, 1982), which also saw the USA take responsibility for Denmark’s defensive military spending, due to its geo-political importance to the former Soviet Union (Kaspersen, 2013, 151). Incorporation into the post-war Bretton Woods structural architecture allowed Denmark to access international credit from the IMF and systems of free trade through the General Agreement on Tariffs and Trade, which have been credited for developing the post-war Danish economy. Although being incorporated into the post-war Bretton Woods international system improved Denmark’s economic performance, incorporation into the system meant adhering to the structural requirements of the system, which marginalised Denmark’s policy autonomy (Kaspersen, 2013, 155). Therefore, the sovereignty of a small Corporatist state, such as Denmark, “is always relative” (Kaspersen, 2013, 163).

Since the 1960s, the single market of the European Union has been the largest source of imports and exports for Denmark (Kaspersen, 2013, 158). To control currency fluctuations within the European Monetary System (EMS), the European Economic Community introduced the original Exchange Rate Mechanism (ERM I) in 1979. The ERM I established

a fixed exchange rate between the different currencies of member states that was pegged to the German Deutschmark, which allowed the Danish Kroner to fluctuate by  $\pm 2.25$  per cent of the agreed central rate. Similarly, when the Euro was introduced in 1999, the ERM II was established to maintain currency exchange rate stability in the single market. Denmark joined the ERM II when it was initially implemented, and it is currently fixed at a central rate of 7.46038 to the Euro, with a  $\pm 2.25$  per cent flexible margin. A second key aspect of the European Economic Area, formed in 1994, to which Denmark also belongs, is the free movement of capital between member states. The Mundell-Fleming trilemma states that the adoption of a fixed exchange rate, coupled with free capital mobility, means that changes in the money supply are ineffective (Mundell, 1963). Therefore, in order to adapt to the structural demands of the EU single market, by adopting a system of fixed exchange rates in both the ERM I and II, as well as the free movement of capital, Denmark has chosen to sacrifice its sovereignty over domestic monetary policy.

The incorporation of Denmark into the structural architecture of the international system has also seen the increasing entrenchment of private financial markets into the arena of public sovereign debt, which has also placed limits on Denmark's self-determination over domestic policy solutions (Kaspersen, 2013; Ruggie, 1982). Additionally, private debt ratings agencies assess the quality and sustainability of sovereign debt, which can influence the level of access a state has to sovereign debt markets. When faced with a deteriorating economic situation, a government can choose to adopt a fiscal expansion, funded either through increased taxation or by running a fiscal deficit, or a monetary expansion. As Denmark has chosen to exchange monetary policy autonomy for access to the European single market, adjustments to monetary policy are not a readily available solution to Denmark's economic problems. However, running large fiscal deficits can lead to increased levels of public debt, which places upward pressure on domestic interest rates and sovereign bond yields, further exposing the state to financial risks (Baldacci and Kumar, 2010). For example, long-term monetary expansions can have severely negative effects on an economy, as demonstrated by the European sovereign debt crisis that followed the GFC (Lane, 2012). Historically, Denmark has had fairly low sovereign debt to GDP ratios: For example, between 1950 and 1979 the mean Danish central government debt to GDP ratio stood at 17.5 per cent, whilst, comparatively, mean British central government debt was at 95 per cent during this same time period (Reinhart, 2016). Denmark's low government debt is in part due to the responsible fiscal spending by the Danish central government, which has largely been in surplus since 1995 (European Commission, 2016). However, in Denmark there have been



specific periods when government debt has been very high, particularly when the country has experienced severe balance of payments deficits, such as just after World War Two, and in the early 1980s (Reinhart, 2016).

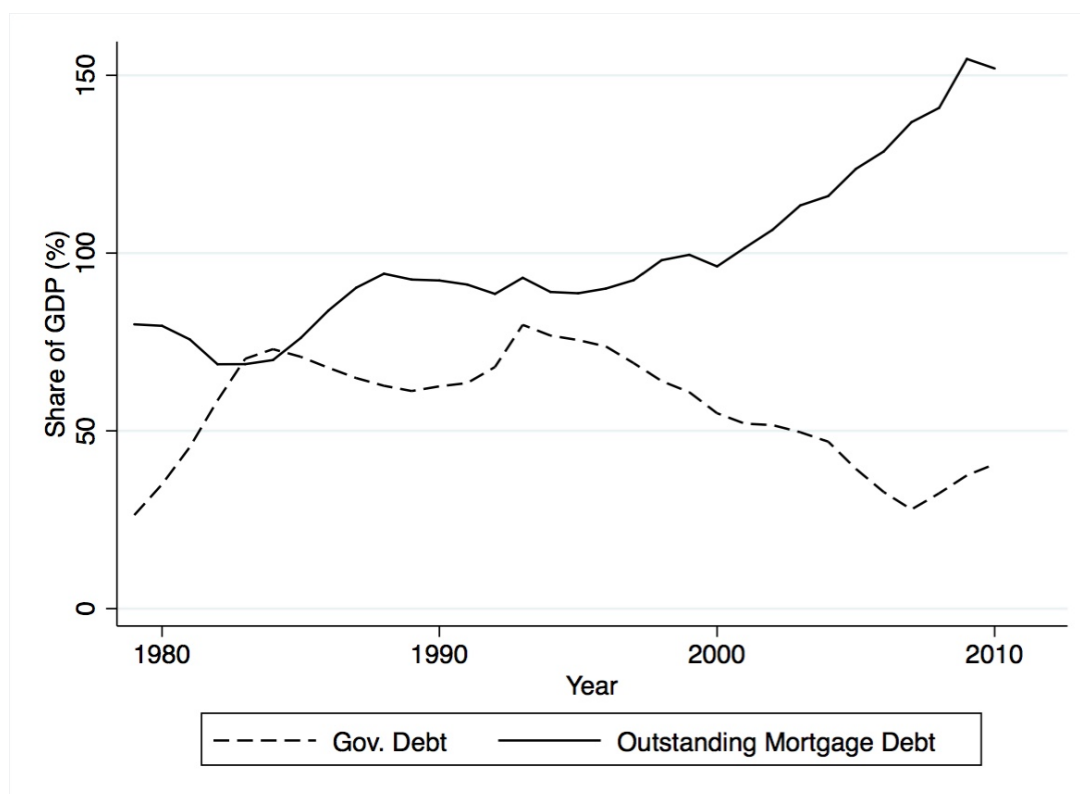


Figure 7: Mortgage and sovereign debt as a share of GDP: 1980-2010. Source OECD (2016)

Figure 7 shows the level of outstanding mortgage debt and sovereign debt as shares of GDP in Denmark between 1980 and 2010. In 1993, after the mortgage equity withdrawal legislation was passed in 1992, Denmark's outstanding central government debt peaked at 79.7 per cent of GDP, which declined dramatically to a low of 27.8 per cent of GDP just before the GFC in 2007 (OECD, 2016). This contraction of sovereign debt in Denmark occurred during a time when other countries with greater monetary policy autonomy were undergoing periods of vast monetary expansion, such as the USA, particularly after 2000 (Diamond and Rajan, 2009). The low levels of public debt, combined with responsible fiscal spending, demonstrate that Denmark may be considered to have adapted to the structural requirements of the international monetary system that establishes the conditions for currency stability, which is necessary for a small export-oriented state such as Denmark (e.g. Katzenstein, 2003).

Although adhering to the structural requirements of the international monetary system can establish the conditions for currency stability, it does not create permanent stability for a domestic economy. Governments often seek to implement changes in fiscal or monetary policy in order to stimulate or regulate the performance of the domestic economy. However, stimulus packages, funded both in terms of government fiscal deficits caused by increased spending, as well as monetary expansions funded by central bank borrowing, can potentially lead to an imbalance in the state's relation to the international monetary system. Therefore, the desire for small states to remain in balance with the structural requirements of the international monetary system places constraints on their autonomy over domestic economic policy measures, as fiscal expansions can only be implemented within the constraints of the sovereign debt markets, and monetary expansions are only possible if a state has monetary policy autonomy. It is within the context of facing structural constraints imposed by the international monetary system that the use of mortgage credit by the Danish state must be placed. The decisions to adhere to the structural constraints of the international monetary system and the European single market have limited the ability of successive Danish governments, as situated agents, to implement fiscal stimulus packages and monetary expansions. The use of mortgage credit as a technique of economic agency by the Danish government, whilst adhering to the structural constraints of the international system, suggests that there is a direct link between the agents situated in four reflexive vertical cascading structures of governance from the international to the national, as well as economic intuitions and the level of the individual. Whilst there are these cascading vertical structures of governance, there may also be a relationship between domestic reflexive horizontal structures in Denmark that influence bottom-up mortgage demand, such as the domestic financial system, the provision of welfare and industrial relations, all of which are examined in detail in chapter seven.

While monetary policy is largely considered the means of money creation, the “majority of money in the modern economy is created by commercial banks making loans” as “whenever a bank makes a loan, it simultaneously creates a matching deposit in the borrower's bank account, thereby creating new money” (McLeay et al, 2014a, 14). As Denmark does not have autonomy over monetary policy as a means of money creation, mortgage lending may be understood as an alternative means of creating money via deposits. Therefore, the liberalisations and restrictions of mortgage credit in Denmark may be considered an agential means of controlling the money supply whilst still adhering to the structural constraints of the international monetary system. Without being the underlying

global currency, such as the US dollar, the demand for sovereign bonds is positively related to the rate of interest offered by the central bank, which makes expansionary monetary policy ineffective at low interest rates (Krugman, 1998). Alternatively, mortgage bond demand is negatively related to the interest rate, therefore, the Danish government may be liberalising mortgage credit as a means of implementing an expansionary monetary policy, via increasing deposits, that works at low, or even negative, interest rates. A visual analysis of the data in figure 6 suggests that there may be a possible inverse relationship between the changes in mortgage debt and sovereign debt in Denmark, which suggests that the two are substitutes whose demand is relative to the interest rate offered on the bond. In a low interest rate environment, mortgage credit can be liberalised and restricted as a means of manipulating the overall money supply, whilst, alternatively, monetary policy, through open market operations, can be used at higher interest rates. The identification of such a pattern lends support to the notion that mortgage debt has been used as a technique of agency by the Danish government to reproduce the corporatist variant of Danish capitalism, thereby reducing reliance on sovereign debt, fiscal deficits, and monetary policy, whilst allowing the Danish state to adhere to the structural constraints of the international monetary system.

## **Conclusion**

This chapter has described the case study analysis to assess the different motivations for the Danish government's liberalisations of mortgage credit between 1979 and 2012. The results of the quantitative chapter have been used as a starting point, which demonstrated that mortgage credit has not been used as a technique of capital accumulation at the expense of wages in Denmark. As an alternative position, this chapter sought to assess the dominant Neo-Weberian explanation for the motivations of the state intervention in the private mortgage market. Private housing has been described as the preferred housing tenure in Denmark and from a Neo-Weberian perspective the Danish government would be thought to be liberalising mortgage credit to widen access to the social norm of private housing and the material gains from the home as a financial asset, as a means of generating bottom-up consent to political party rule. Although there was a vast increase in mortgage credit between 1979 and 2012 in Denmark, the rate of owner-occupied housing actually decreased during this time period, and there has been little demonstrated political will to promote and establish a widespread home-owning society in Denmark. As the liberalisations of mortgage credit did not lead to an increase in homeownership, this chapter sought to examine whether there was

an alternative motivation for the Danish state liberalisation of mortgages through the use of a qualitative analysis, which primarily relied on interviews with political elites and financial sector actors, as well as unsolicited document analysis.

The results of the analysis have demonstrated that the Danish state has used mortgage credit as a means of influencing the domestic economy through changes in disposable income, savings rates, wage negotiations, national output and the balance of payments. For example, a liberalisation of mortgage credit can lead to an increase in disposable income, either through a reduction in the regular mortgage payment or through a home equity withdrawal loan. The increase in disposable income could allow for an increase in consumption, boosting the domestic economy, whilst, conversely, a restriction in mortgage credit would moderate economic growth if it was thought that the economy was over-heating. Mortgage credit has also been identified as a form of monetary policy intervention, particularly as a means of solving the persistent Danish balance of payments problem. In 1986, the Danish government severely restricted access to mortgage credit, which, although it started a recession and increased unemployment, the policy was considered a success as it established an improvement in the current account balance, which has remained largely positive since 1990. However, the acceptance of increased unemployment to achieve a balance of payments surplus after the 1986 reforms may be considered the Danish version of the Volcker shock, which marked the division between the Fordist-Keynesian industrial complex and post-Fordist financialisation in the USA.

More recently, the Danish government has sought to solve the balance of payments problem by encouraging Danish citizens to save through the introduction of mandatory savings requirements, which increases aggregate saving relative to investment. However, an increase in saving would, *ceteris paribus*, lead to a reduction in output, negatively effecting the Danish economy. The liberalisations of mortgage credit have been used in conjunction with the mandatory savings policy as a means of simultaneously increasing saving and consumption to maintain growth in the Danish economy. Overall, the state interventions in the mortgage market can be linked to the desire of the Danish government to establish and reproduce the wider economic conditions that ensure the functioning of Denmark's capitalist economy. Therefore, in contrast to the British case, in Denmark the worker may only be considered an indirect object of regulation, as the main object of mortgage policy is to regulate the functioning of the wider economy.

Denmark is widely considered a Corporatist state that looks to include significant institutionalised actors, such as employer associations and trade unions, into the domestic

policy formulation and implementation process. The relationship between workers and employers is double-edged, as they are mutually dependent on one another, yet they are also in competition for the proceeds of production, in terms of wages and profits. From the standpoint of the SRA used by this thesis, the Danish state has used mortgage credit as part of a wider mediation function to promote the mutual interest of both employer associations and trade unions by reproducing the conditions for economic growth, which benefits both parties by providing opportunities for capital investment as well as employment. Therefore, the corporatist Danish state has used mortgage credit as a mediation function to regulate the corporatist employer-employee relationship, rather than to promote a specific capital interest, such as the financial sector, or to provide access to the social norm of private housing as a mechanism of bottom-up consent, as suggested by Neo-Weberian scholars.

From an international perspective, Denmark has chosen to adhere to the structural rules of the international monetary system to establish the conditions for currency stability and international trade to improve Denmark's economic performance. However, adhering to the structural constraints of such an international system, particularly the need to maintain low levels of sovereign debt, has placed constraints on Denmark's domestic policy autonomy. One pertinent example of this can be seen with Denmark's increasing integration into the European single market that has seen Denmark peg the Danish Krone to the Euro, and have free movement of capital, which has led to a loss of Denmark's monetary policy autonomy. In light of the loss of traditional mechanisms to boost the domestic economy, such as increasing public borrowing to fund fiscal spending or performing a monetary expansion, Denmark has used the channel of mortgage credit to elicit behavioural changes in the public as a technique to manipulate the performance of the domestic economy. The links between the international monetary system and individual behaviour suggest that there is a system of cascading vertical structures of governance, which influences the behaviour of agents situated at either the international, national or individual level.

Overall, these results demonstrate the importance of mortgage credit as a domestic interventionist policy to the Danish state that faces constraints on its internal policy autonomy by adhering to the structure of the international monetary system, as well as the European single market. The importance of mortgage credit as an interventionist policy was emphasised by the former senior figure in the Danish Ministry of Economic Affairs, who stated that "from 1970 [mortgage credit] has been used as a main policy instrument as a matter of fact" (Interviewee 15, 2016). Additionally, the identification of mortgage credit as a technique of domestic policy intervention in Denmark makes sense of recent attempts by the

Basel Committee to place constraints on the Danish mortgage system in the name of policy harmonisation and stability (e.g. Matzen and Jensen, 2016), which may be considered an attempt to curb the Danish state's use of mortgage credit as a means of interventionist policy that exists beyond the reach of the current international monetary system.

## Chapter 7

### The Comparative Political Economy of Mortgage Institutions

*“Not all natures are the same”*

Fyodor Dostoevsky (2007, 53)

The first three empirical chapters of this project have sought to establish the motivations for the state facilitation of mortgage credit in Britain and Denmark. The quantitative analysis of chapter four demonstrated that an increase in mortgage credit has led to the reduction of the wage share in Britain between 1979 and 2012, whilst this was not the case in Denmark during the same time period. The subsequent chapters consisted of a qualitative examination of each case that used retroductive process tracing to establish the necessary conditions that would explain the results of the quantitative analysis. The qualitative investigation of the British case in chapter five suggested that successive British governments between 1979 and 2012 have promoted private housing to encourage workers to engage with mortgage credit as part of a mortgage-led financial accumulation regime. Additionally, the analysis of the British case suggests that by placing such a large emphasis on the financial gains to homeownership, largely due to the private provision of welfare goods, the disciplinary effects of mortgage credit encourage workers to prefer stable employment over aggressive bargaining for higher wages, which ultimately led to a reduction in wage growth in Britain. Alternatively, the qualitative analysis of the Danish case in chapter six demonstrated that the Danish government has repeatedly used mortgage credit as a mode of intervention to regulate the performance of the economy. The results of the Danish case suggest that mortgage credit has been used to reproduce the general conditions for capital accumulation in Denmark, either without favouring a particular social or capital faction, or by at least doing so in a labour-inclusive manner. These empirical case studies have shown that mortgage credit has been used as a tool to manage the economy by both the British and Danish governments, yet the Danish variant of mortgage-led growth does not have a negative effect on wages as the British version does.

The qualitative analysis of each individual case suggests that systems of mortgage credit do not exist in isolation from other policy areas, each with their own structures that influence the behaviour of agents situated within those structures. This chapter seeks to

expand on the single case study analyses by examining how the structures of the mortgage systems in Britain and Denmark may be connected to the wider political economy of each state, which may explain the different disciplinary effects of mortgage debt in each state observed in the quantitative analysis in chapter four, and the subsequent qualitative analyses of each state. The results from the empirical chapters of this thesis suggest that there are three key reflexive policy areas that exist as horizontal structures within the state, which may influence how systems of mortgage credit can be linked to the distributional outcomes observed in chapter four: the structure of the mortgage system; the structure of welfare provision; and the structure of industrial relations. The first section of this chapter will describe and compare the British and Danish mortgage systems, with a specific emphasis on how the structure of these systems may have different disciplinary effects on workers in each state. The structures of differentiated mortgage systems are considered to be “remarkably idiosyncratic”, which can complicate the comparison between international mortgage systems (Berg and Bentzen, 2014, 58). Whilst comparing mortgage systems may be difficult, the differences and similarities established through the comparison may provide fruitful areas for research, which, as demonstrated by the analyses of Britain and Denmark in this thesis, may be linked to the broader political economy of each state.

The second section will outline the differentiated structures of welfare provision in both Britain and Denmark. The second section will also describe how the differences in the two welfare systems may be linked to the disciplinary effects of mortgage finance. This section highlights the importance of the shift in British and Danish welfare provision from a traditional Keynesian Welfare State towards a Schumpeterian Workfare State, which occurred in the 1990s. Although both countries enacted a workfare state, the structures are very different, which is highlighted by the differences in retirement income provision. In Denmark, pension provision is largely funded through work-place pension contributions or the basic state pension, which is accessed by adhering to the obligation to work. Although the British pension system also consists of a basic state pension and employer-based pension contributions, many pension schemes are underfunded, as private housing is seen as a more viable source of retirement income. The emphasis on the home as a form of asset-based welfare in Britain establishes a dependence on mortgage finance to access retirement income; therefore, the British workfare system is also linked to a wider system of debtfare, which may be a source of increased disciplinary pressure on the workforce that is absent in Denmark. The analysis in the third and final section of this comparative chapter demonstrates that trade union members in Britain have a higher wage premium than non-union members, which



suggests that the individualised system of wage bargaining in Britain may also contribute to the additional pressure on wages that is absent in Denmark, where there is a widespread culture of collective wage-bargaining.

### **The British Mortgage System**

The structure of the British mortgage system is closely configured to the US mortgage model, to the extent that they are often amalgamated in a single descriptive term of “Anglo-American” (e.g. Fernandez and Aalbers, 2016, 72). Although the systems are similar, there are significant differences between the British and US mortgage models: for example, the US has quasi-government lending institutions, Fannie Mae and Freddie Mac, that facilitate access to long-term (i.e. 30 year) fixed interest rate mortgages, which are not available in the UK. The British mortgage market has been widely identified as a liberal system that is considered to have relatively easy access to credit, and is characterised by high levels of mortgage debt as a ratio of GDP (Schwartz and Seabrooke, 2008; Ansell, 2014). The analysis of descriptive statistics in chapter four demonstrates that Britain does indeed have a relatively high level of mortgage debt to GDP when compared to Sweden and the USA, but it is not nearly as high as Denmark. Although access to mortgage credit has been liberalised in Britain, it has not always been that way, as mortgage credit access was highly restricted before a series of deregulation measures were implemented by the Thatcher government in the 1980s, as well as by the Blair government in the 1990s/2000s (see chapter five for further details).

In addition to deregulation, financial product innovation has also been credited with the increase in mortgage credit that has occurred in Britain since the 1980s. Securitisation has been identified as a significant financial product innovation that enacted a fundamental change in the commercial banking model (Martín-Oliver and Saurina, 2007; Pennacchi, 1988). Securitisation is the process by which an interest-bearing risk asset is sold by the issuing party to an external party, as part of a special purpose vehicle (Langley, 2008, 136-137). Securitised mortgages are transferred from the lending institutions balance sheet, and are either pooled together and sold as mortgage-backed securities (MBS), or pooled with other debt instruments to form collateralised debt obligations (CDO). Selling the mortgages as interest-bearing assets to a third party allows the lender to remove their risk burden on that mortgage and increase their liquidity, which can be used to fund new loan originations. Additionally, the securitisation of financial assets also provides both financial and non-

financial firms with liquidity from assets that could otherwise not be sold in liquid markets (Martín-Oliver and Saurina, 2007). It has been suggested that the securitisation of mortgages is the primary driver of the increase in mortgage debt in liberal markets (Schwartz and Seabrooke, 2008, 253); however, in Britain, that is not the case. In 2007, just before the onset of the crisis, only 17.15 per cent of all residential mortgage loans were securitised in Britain, which decreased to 9.97 per cent in 2012 (Bank of England, 2016). These figures are very low in comparison to the US market, where approximately 69 per cent of all mortgage originations were securitised between 2001 and 2006 (Ashcraft and Schuermann, 2008). Therefore, Britain may be characterised as country with low levels of mortgage securitisation, which means that British financial lending institutions tend to largely hold onto the mortgage assets and bear the credit risk (Green and Wachter, 2005, 101-102).

Before the mortgage deregulation reforms were introduced in Britain in the 1980s, it was thought that the major funding source for mortgage lending had traditionally been deposits (Green and Wachter, 2005). In this traditional understanding, banks were considered intermediaries that looked to attract savers by offering a positive rate of interest, and these saving deposits would be pooled together and lent out by the bank at a higher interest rate to borrowers seeking a mortgage. In this banking intermediary model, banks would generate profits from the margin of interest between what they borrowed and what they lent at. The need for banks to have borrowers to lend to as sources of income generation can be linked to the wider government promotion of private housing in Britain that has spurred on the financialisation of the British economy, which is described in detail in chapter five. The notion of banks as intermediaries would explain why long-term fixed rate mortgages are unavailable in Britain, as banks have to ensure that the interest rate margin between savings and mortgages remains profitable, which requires short-term fixed rates for borrowers to absorb the interest spread risk rather than the lender (Green and Wachter, 2005). The conception of banks as financial intermediaries is widespread, and banks are often identified as intermediaries by economics textbooks written by prominent economists (e.g. Blanchard et al, 2010). However, the Bank of England recently explained that this is not how banking works in the modern economy (McLeay et al, 2014a). Increasing savings does not increase the available funds for banks to lend as mortgages, as bank deposits “are simply a record of how much the bank itself owes its customers” (McLeay et al, 2014a, 15). Therefore, saving deposits may only be considered “a liability of the bank, not an asset that could be lent out” (McLeay et al, 2014a, 15).

Alternatively, “in the real world” of advanced financial banking systems, banks create their own deposits through the act of lending, which is part of “a transaction that involves no intermediation whatsoever” (Jakab and Kumhof, 2015, ii). When a bank makes a loan into the account of a borrower, they do so for a single actor that is both borrower and depositor. Subsequently, when a bank makes a new loan, it simultaneously creates an expansion on both sides of the balance sheet: on one side as a loan entry on the asset side of the balance sheet, and an equal deposit entry on the liability side (Jakab and Kumhof, 2015, 3). Therefore, the bank creates its own funding deposits through the act of lending and money is created instantaneously, which makes commercial banks a major source of money creation in the economy (Jakab and Kumhof, 2015, 3; McLeay et al, 2014a). Instead of saving leading to loans and investment, it is the issuance of new loans that increases savings; therefore, the quantity of reserve deposits is “a consequence, not a cause, of lending and money creation” and “to argue otherwise confuses the respective macroeconomic roles of resources (saving) and debt-based money (financing)” (Jakab and Kumhof, 2015, 4).

Although banks create deposits and loans to increase both sides of the balance sheet, they may not do so without limit (McLeay et al, 2014a). The primary limits to bank lending are profitability, which is determined by the interest rate margin between borrowing and lending, and solvency, which is ensured by maintaining liquidity (Jakab and Kumhof, 2015; McLeay et al, 2014a). The business model for commercial banks is still based on receiving a higher rate of interest received on loans (or other assets) than the interest rate paid on deposits (or other liabilities), which is used to meet operating costs and generate profit (McLeay et al, 2014a, 18). The interest rate of both assets and liabilities is positively related to the interest rate set by the Bank of England, which is the ultimate constraint on money creation, as it determines the relative demand for loans and savings (McLeay et al, 2014a, 18). Although commercial banks can create new deposits via issuing new loans, they face an increased liquidity risk if deposits are created and are diverted to competing firms (potentially via home purchases), which, without attracting additional liabilities, could lead to a reduction in the bank’s capital reserves or threaten the banks solvency (Jakab and Kumhof, 2015, 5; McLeay et al, 2014a, 18).

In order to maintain liquidity, banks could seek to attract additional liabilities by increasing the interest rate offered on deposits, but that is not wholly feasible in the short run. An alternative option is to borrow from other banks or access credit from other funding sources, such as wholesale credit markets (McLeay et al, 2014a, 18). It is in the context of liquidity requirements that the mortgage deregulation measures implemented by British

governments in the 1980s and 1990s must be understood. As banks create deposits and assets simultaneously through the process of lending, the deregulation measures that facilitated mortgage firm access to wholesale credit markets allows them to maintain solvency in the face of depleting liabilities. The wholesale credit market provides access to both long and short-term credit, which can have durations as short as overnight loans, whose costs are often based on the London inter-bank offered rates (LIBOR). The additional borrowing cost from accessing the wholesale credit market must be factored into the profitability of the mortgage firm, and as the mortgage borrower absorbs the interest rate risk in the British model, the additional funding cost of borrowing on wholesale credit markets is passed onto the borrower. In Britain there has been an increase in the use of credit scoring, where the credit history of a borrower is taken into account to determine future credit risk, and borrowers deemed a higher credit risk are charged a higher interest rate (Burton et al, 2004). Therefore, profitability is dependent on the spread between the interest rate paid to creditors and depositors, and the interest rate received from mortgage loans, which is higher for higher risk (or sub-prime) borrowers. The interest rate spread on mortgages can vary greatly to between 0.82 and 2.43 percentage points above the bank rate in Britain, which is charged directly to the borrower (Winnett and Wallop, 2009).

The GFC occurred for different reasons in Britain and the US, which is, in part, due to the differentiated structure of their mortgage systems. Most analyses of the 2008 GFC argue that the prevalence of mortgage securitisation in the USA led to a deterioration of credit risk assessments, which fuelled a rise in sub-prime mortgage lending and increased the rate mortgage defaults (Mian et al, 2010; Aron and Muellbauer, 2016). In contrast, the mortgage default rate in post-crisis Britain was much lower than the US, and it was also significantly lower than during the British housing crisis of the 1990s (Aron and Muellbauer, 2016). The lower British default rate in the aftermath of the crisis suggests that lending to sub-prime borrowers was not a significantly widespread phenomenon, as there was limited exposure to credit risk due to the lower prevalence of securitised mortgage products in Britain, which meant that banks held onto the mortgages as assets (Wainwright, 2009, 382). Rather than having a potentially widespread credit risk in the markets from the diffusion of sub-prime mortgages, it was the reliance on access to wholesale credit that was largely responsible for the transmission of the GFC to the UK (Langley, 2008). Here there is a link to the alternative suggestion that it was the vast expansion in prime mortgage lending that caused the GFC, rather than just simply an expansion in the sub-prime mortgage sector (Ferreira and Gyourko, 2015).

In Britain, the deregulation of access to wholesale credit markets allowed for “the rapid growth” of mortgage lenders that were reliant on the permanent availability of interbank lending and wholesale credit in the build-up to the crisis (Turner, 2009, 35). Although mortgage debt is considered an asset by the lender, it is also a liability in the form of debt, and the financial system is based on the relative confidence of the repayment of that debt for it to be considered an asset (McLeay et al, 2014b 4). The rise of the sub-prime mortgage crisis in the US created a sudden illiquidity in interbank and wholesale credit markets, as lenders were not convinced that the mortgages banks held were actually conceivable as assets, which caused banks to suddenly stop lending to one another, resulting in a global “credit crunch” (Brunnermeier, 2009). In Britain, this was typified by the demise of Northern Rock, who had been lending long-term twenty-five-year term mortgages, whilst funding the liability side of the balance sheet with very short-term commercial paper loans that needed to be refinanced several times a year (Shin, 2009). When credit markets became illiquid, Northern Rock was unable to refinance its liabilities, and became insolvent. Therefore, the GFC in Britain may be largely considered a consequence of capital markets becoming illiquid because of the subprime crisis in the US (Langley, 2008). Such an understanding explains why the British government policy response to the GFC has focused on large-scale quantitative easing, to provide liquidity and purchase or swap banking assets, including mortgages (Bordo, 2008).

### **The Danish Mortgage System**

In contrast, the structure of the Danish mortgage system is very different to the British model of mortgage finance, as it is largely based around the use of covered bonds (*Realkreditobligationer*), which is considered “a highly sophisticated product” by the Danish financial regulator (Interviewee 12, 2016). Danish mortgages have traditionally been provided by non-profit dedicated mortgage lending institutions that act as a genuine intermediary between borrowers and investors. Danish mortgage institutions do not have any loanable funds themselves, but rather raise loan funds through the issuance of covered bonds, based on a “match-funding principle” (Realkreditrådet, 2012, 7). When a borrower has been approved for a loan, the mortgage institution sells a bond to a third-party investor, and the funds generated by the bond sale are used to finance the mortgage loan. The interest rate and duration of the covered bond is the exact same interest rate and duration that the borrower has

on their mortgage, but the mortgage institution charges an annual administration fee to the borrower to cover running costs, which is redistributed to the borrowers if there is an annual profit for the institution (Interviewee 10, 2016). The administration cost charged by the mortgage institutions is approximately 0.5 per cent of the outstanding loan amount, which is typically lower than the margin a banking institution would charge (Finanstilsynet, 2010; Realkreditraadet, 2012). The covered bonds are listed on the stock exchange, which provides both full price transparency and market-based pricing for borrowers, thereby placing downward pressure on mortgage costs (Realkreditraadet, 2012, 9). For example, in 2015, the Danish central bank moved their short-term interest rates into negative territory, and the negative interest rate environment has been passed on to mortgage borrowers who have been given mortgages at rates of up to negative 0.0562 per cent (Duxbury and Gauthier-Villars, 2016; Milne, 2015).

The mortgage institution holds the mortgage as an asset, but also has issued a bond to an investor as a liability, which evens the balance sheet of the mortgage institution, but without the potential for a maturity mismatch. The principle and interest payments made by the borrower on the mortgage are made to the mortgage institution, but transferred to the third party investor. Therefore, the mortgage institution is unaffected by changes in interest rates, and the interest rate risk is divided equally between borrowers and investors. Although covered bonds have been considered a form of securitisation (e.g. Schwartz and Seabrooke, 2008, 253) the mortgage assets are not removed from the balance sheet of the lending institution and sold to a third-party investor; therefore, covered bonds may not be considered a form of securitisation (APRA, 2011, 7). An additional reason why covered bonds must also be considered a distinct investment vehicle from the mortgage backed securities is that there is no investor exposure to the underlying asset because it is held by the mortgage institution (Packer et al, 2007, 44). As the mortgage institution holds the loan as an asset on their balance sheet, there is an incentive to place stringent credit restrictions on mortgage lending to ensure that borrowers are considered sufficiently able to repay their mortgage (Interviewee 10, 2016).

The Danish mortgage system has been operating on the match-funding principle since the first co-operative mortgage institution was established in 1797, after the Great Fire of Copenhagen in 1795 (Realkreditraadet, 2012). The Danish mortgage system is widely considered to be remarkably stable, as no Danish mortgage institution has ever defaulted on a covered bond to a third-party investor, despite periods of severe economic and political instability, such as the bankruptcy of the Kingdom of Denmark that occurred in the early

1800s, the Great Depression and German occupation during World War Two (IMF, 2014b, 7). However, the Association of Danish Mortgage Banks (*Realkreditraadet*) is willing to concede that there has been a single example of a late payment made to an investor in the 1930s (Realkreditraadet, 2016a). Additionally, in the past two hundred years the Danish mortgage system has never had a mortgage lender go bankrupt, and the stability inherent to the Danish mortgage system “has never led to credit losses” (Realkreditraadet, 2012, 4; Finanstilsynet, 2010, 2). The robust nature of the Danish mortgage system is all the more impressive when one accounts for the extremely high 153.29 mortgage-debt-to-GDP ratio identified by the quantitative analysis in chapter four. The stability of the Danish mortgage system is mainly attributable to the robust legislative framework implemented by the Danish government that “has put great emphasis on the protection of the mortgage bond investor by imposing strict limits on the risk taking of the mortgage banks” (Rasmussen, 2014, 3).

### **Comparing the British and Danish Mortgage Systems**

A comparative assessment of the Danish and British mortgage systems may be performed using three key objectives: affordability, stability, and government intervention (Berg and Bentzen, 2014). In terms of affordability, the Danish co-operative mortgage system provides mortgages to borrowers without a profit margin added to the interest rate charged on the covered bond sold to the investor. Whilst, on the other hand, the British for-profit system requires a margin to be charged between what the bank borrows and lends at. A comparison of interest rate spreads on British and Danish mortgages demonstrates that British mortgages are provided at a significantly higher cost to the borrower than in Denmark (Berg and Bentzen, 2014, 66). Mortgage pricing remained low in Denmark both during and after the GFC, largely due to the stability of the Danish mortgage system, which contrasts sharply with the British experience of the GFC (Berg and Bentzen, 2014, 66). Demand for mortgage assets was in sharp decline in Britain after the GFC, and many banks were reluctant to lend to one another due to the general instability of the financial system and the unknown quality of mortgage loans. However, the public demand for mortgages was still high in Britain, and such instability in mortgage provision threatened to create a significant problem for the housing market, which is of significant political value (Schwartz and Seabrooke, 2008; Schwartz, 2008). Therefore, in order to maintain the functioning of both the financial and housing markets, the British government had to increase the equity of British banks, guarantee interbank deposits and provide liquidity (Bordo, 2008).

Both during and after the GFC the Danish government had to intervene in the economy to provide extensive liquidity support to the financial sector through six distinct rescue packages (*bankpakke*). These financial sector support packages guaranteed financial liabilities, and nationalised some smaller regional banks, yet none of the government intervention measures were directly related to the mortgage system (Laeven and Valencia, 2012, 9). In the Danish case, the GFC actually initiated an increase in demand for covered mortgage bonds from private investors, as they often considered a safe-haven for investment, especially in times of economic instability (Realkreditraadet, 2012, 3-4). One of the reasons why covered mortgage bonds are considered such robust investments is that they have low borrower default rates, which is in part due to the strict credit criteria imposed by the Danish government. Additionally, creditors, such as covered bond investors, are very well protected in Denmark, as there is a quick foreclosure process that provides the house for resale within six months of default, which is facilitated by local municipalities who have an obligation to rehouse those who have foreclosed on their property (Berg and Bentzen, 2014, 65). Another supporting factor is that many borrowers can still refinance their loans from fully amortised products to interest-only mortgages despite being unemployed due to the high-income replacement rates from unemployment insurance (Interviewee 16, 2016; IMF, 2006, 8). In 2015, 0.96 per cent of all mortgages in Britain were in arrears, which is more than four times higher than the Danish arrears rate of 0.21 per cent and is significant as Denmark has a much higher aggregate mortgage debt burden as a share of GDP in comparison to the UK (CML, 2015; Realkreditraadet, 2016b). These statistics suggest that the structure of the Danish mortgage system has resulted in a much lower post-crisis mortgage default rate in Denmark than in Britain.

One significant issue that did arise in the Danish mortgage system after the crisis was related to recent legislation that allowed short-term bonds to be used to finance adjustable and variable rate mortgages, which introduced a significant bond maturity mismatch into the mortgage system (IMF, 2014b, 4). In December 2008, mortgage institutions had to reset interest rates on adjustable rate mortgages, but there was a shortage of bond purchasers in the market due to liquidity issues, which threatened to create a major funding deficit that would have had severe repercussions throughout the Danish economy (Realkreditraadet, 2012, 24). The Danish state did not intervene directly in the post-crisis mortgage market to address the mismatch issue, however, one of Denmark's largest semi-private pension funds did purchase a large portion of the outstanding mortgage bonds to avoid another major financial crisis. Although the pension fund did intervene in the private mortgage market, it is not clear



whether it did so at the bequest of the Danish state. When asked about the pension fund intervention, the member of the board of the Danish central bank stated: “Whether they [the pension fund] were asked to do it, or whether they just saw it as a good business opportunity, I don't know. I suppose that I shouldn't be surprised if it was a bit of both, but I wouldn't know that because it is not public” (Interviewee 11, 2016). However, he also added that “they were not forced to do so” (Interviewee 11, 2016). To avoid a repeat of the maturity mismatch problem, the Danish government has introduced new legislation to reduce the amount of adjustable and variable rate mortgages in the financial system, and established a new emergency mechanism to deal with a potential failed bond refinancing auction (IMF, 2014b, 5). Therefore, the fiscal burden of the crisis in Denmark, as related to the mortgage sector, was largely borne by the private sector. Overall, the results of this comparative analysis of British and Danish mortgage systems suggests that the stability of the Danish system ultimately benefits the borrower in terms of low-cost housing finance access, whilst, alternatively, the instability inherent in the British model requires the interest rate risk to be absorbed by the borrower. Such an analysis suggests that the increased cost of mortgage provision in Britain may also increase the disciplinary weight of the mortgage repayment cost in comparison to Denmark, which may, in part, explain the presence of the disciplinary effects of mortgage debt on the wage share in Britain identified in chapter four, which is absent in Denmark.

## **Welfare State Structures in Britain and Denmark**

The need to bailout the financial sector as a result of the GFC, which was in part due to the structure of the British mortgage system, has placed an even greater financial burden on the British taxpayer, and has coincided with repeated Conservative calls for austerity measures to be implemented so that government spending levels may be in compliance with the international financial markets. The emphasis on cutting government spending in Britain has led to the reduction of state service provision, which has placed an even greater emphasis on the home as source of finance for welfare goods, and contrasts greatly with the degree and means of service provision delivered by the Danish welfare state. The qualitative assessment of the British welfare state outlined in chapter five also highlighted the importance of private housing as a vehicle for the provision of welfare services through the system of asset-based welfare in Britain. The analysis of the British case has suggested that the various British

governments in power between 1979 and 2012 have liberalised mortgage credit as part of a mortgage-led accumulation regime, thereby establishing a hybrid debt-fare-workfare state for all but the very poorest and wealthiest in British society.

The provision of welfare state services in Denmark has considerable differences from the British model of the welfare state (Esping-Andersen, 1990). Traditionally, social-democratic welfare state regimes are associated with strong state service provision funded through high levels of income taxation, which seek to achieve higher employment, especially for women, and greater income equality than the liberal welfare state regime associated with Britain (Benner and Vad, 2000, 399). Denmark's post-war welfare state was close to the social-democratic ideal, and was considered highly generous, in part due to the subsidisation of military costs by the USA that allowed the Danish state to generously fund welfare provision (Kaspersen, 2013). However, a series of policy failures by the Social Democratic government in power for much of the 1970s led to a vast increase in unemployment, which was further compounded by the relative absence of any meaningful progress from the employment policies passed by the Conservative-led governments of the 1980s and early 1990s (Benner and Vad, 2000, 436; 450). The 1990s marked a new era of welfare provision in Denmark, as the Danish Social Democratic government introduced a series of labour market reforms in 1993, 1995 and 1998 that signalled a general shift from welfare to workfare (Damgaard and Torfing, 2010, 250). The Social Democratic government acknowledged that the high unemployment rates were largely due to supply-side issues, such as lack of human capital development (Larsen and Andersen, 2009, 257). The reforms sought to address this issue by reducing access to "passive" unemployment benefits, which are paid by the state to the individual searching for work, whilst supporting more "active" policies that focused on re-training, re-education and work-based training (Benner and Vad, 2000, 451). The reforms also reduced the maximum duration that an individual was able to receive unemployment benefits from approximately eight to four years (Larsen and Andersen, 2009, 242).

These supply-side reforms further reinforced the Danish transition to becoming a workfare state, as one set of policies merged social policy with labour market policy by incorporating non-unemployment based welfare recipients in the activation schemes (Damgaard and Torfing, 2010, 250). One way that this was accomplished was the widespread mandate for all unemployed individuals, and all "work-able social benefit claimants," to engage with some form of re-skilling or on-the-job-training after a period of taking passive

unemployment welfare support (Damgaard and Torfing, 2010, 250). Another of the labour market activation policies encouraged those on disability benefits, as well as those who were in receipt of an early retirement pension, to find part-time employment for minimum of a few hours a week (Damgaard and Torfing, 2010, 250). Overall, the changes to the eligibility requirements introduced in these labour market reforms meant that Danish welfare state services had gone from being one of the easiest to access to “being among the strictest in Europe” (Larsen and Andersen, 2009, 242). In accordance with the welfare reforms, labour markets were also deregulated, which increased the flexibility of the hiring decisions made by firms (Madsen, 2004). Although these reforms were implemented in Denmark, similar legislative reforms have been passed in Sweden and Finland, which forms part of a wider pattern that marks the general transition of Nordic welfare states into workfare states (Kananen, 2012). The inspiration for these reforms was drawn from many of supply-side policy changes implemented by the Anglo-American countries in the 1980s and 1990s, which were themselves the result of a neoliberal transformation of the Keynesian welfare state to a Schumpeterian workfare state (Larsen and Andersen, 2009; Torfing, 1999).

Although the reforms were inspired by the British and American workfare states, the Danish workfare reforms differ in three particular ways (Torfing, 1999): Firstly, the right to access welfare through activation policies was seen as a supplement to the generous welfare state in Denmark, rather than a form of complete substitution (Torfing, 1999). Secondly, the positive incentives of human capital development through skill-based training were the preferred means to encourage labour market participation, as opposed to the Anglo-American method of reducing benefit payments and wages (Torfing, 1999). Lastly, the Danish activation policies were focused on the empowerment of the unemployed through the use of “individual actions plans”, which contrasts greatly from the Anglo-American use of disciplinary mechanisms, such as control measures and sanctions, to force citizens to return to the labour market (Damgaard and Torfing, 2010, 250). The key differences between the two workfare models can be summarised by stating that the Anglo-American model is “a work-first approach to workfare”, which seeks to push people back into the labour market as quickly as possible, whilst the Danish model is “a human-capital approach”, which places a strong emphasis on developing the skills of unemployed workers while “increasing their individual responsibility for active labour market participation” (Damgaard and Torfing, 2010, 250). These key differences demonstrate that while the Danish Social Democrats acknowledged the supply-side structural problems of the labour market, “they did not passively accept the neoliberal “medicine” that was typically suggested as a “cure”” (Larsen

and Andersen, 2009, 257). Rather, the Danish reforms sought to develop solutions that were specific to the diagnoses of the problem (Larsen and Andersen, 2009, 257). Subsequently, the Danish model of workfare can be understood as constituting a flexible employment regime with active labour market policies combined with strong levels of social protection, which “defends individuals from the potential costs of a low level of employment security” (Madsen, 2004, 187).

These labour market reforms have changed the Danish system of unemployment benefits to a system of workfare rather than a system of welfare, and marks a trend that has permeated through many other aspects of welfare provision in Denmark, which will be examined using pension provision as an example. The pension system in Denmark is based on a three-pillar system, where the first pillar is the national basic old-age pension, which is based on universal access and financed through the income taxes (de la Porte and Natali, 2014, 738). The second pillar is a labour-market pension scheme, which is a fully-funded earnings-related pension that is the result of collective bargaining agreements in Denmark, and are considered a more significant source of retirement income than the first pillar of public pension provision (Kvist, 2014; de la Porte and Natali, 2014, 738). Second pillar benefits are based on a defined-contribution scheme, which is contingent on the nominal value of the contributions made, combined with the rate of return on the investments (Kvist, 2014, 7). The third pillar is based on a series of “individual savings vehicles”, and is a private pension system that is funded through private and individual contributions, and is much less prevalent than the second pillar (Kvist, 2014, 4; de la Porte and Natali, 2014, 738). The first pillar provides a high-income replacement rate for low-income earners, whilst the second and third pillars provide a supplemental form of income replacement for middle and high earners (Kvist, 2014, 6-7). Additionally, there are two supplementary pension schemes, ATP and SUPP, which cannot be wholly categorised into either the first or second pillars of pension provision (Kvist, 2014, 4). The emphasis on pension provision through income-based contribution systems for middle and high income earners may be considered another demonstration of the wider shift from welfare to workfare in Denmark.

The British pension system is also based on a three-pillar system; the basic state pension, the supplementary state pension and voluntarily funded private pension schemes (Seeleib-Kaiser, 2014, 5). The basic state pension is unfunded and is provided to those who have been cumulatively employed in the UK for thirty years, as well as those means-tested and considered below the poverty line; however, British pensioners have become increasingly dependent on supplementary means-tested pension provision from the

government (Seeleib-Kaiser, 2014, 5). The liberal nature of welfare provision in Britain is highlighted by the need for a voluntarily funded private pension, which is considered “a core element for an adequate income” that is sufficiently able to maintain living standards in retirement (Seeleib-Kaiser, 2014, 5). In recent decades, there has been a shift in private pension provision in the UK, which has seen a move away from defined-benefit schemes towards an increased prevalence for defined-contribution schemes (Pension Commission, 2004). In recent years, there has been a downward trend in the level of private pension savings in Britain, and the British government has sought to increase pension contributions by introducing auto-enrolment schemes (Seeleib-Kaiser, 2014, 5). Whilst private pension schemes may be considered “the obvious default retirement saving vehicle”, the British public widely consider “property as the best way to make money for retirement” (McPhail, quoted in Greenhalgh, 2015, paragraph 7; paragraph 1).

A recent survey has shown that while the majority of the British public think that employer pension schemes provide the safest option to save for retirement, they also think that investing in property will yield a higher investment return (ONS, 2015b). Such a sentiment has been echoed by Andy Haldane, the Chief Economist of the Bank of England, who, when questioned as to whether pensions or property was the better option for funding retirement income, stated that “[i]t ought to be pensions but it’s almost certainly property” (Haldane, quoted in Railton, 2016). Property is often the primary source of retirement savings for many British workers, as they may have limited investments and stock portfolios (Clark et al, 2009). There may be an overdetermined relationship between the lack of savings and the emphasis on the private home as a source of retirement income, as the high cost of private housing in Britain may have diverted potential retirement investment funds away from savings accounts, to the cost of private housing (Montgomerie and Büdenbender, 2015). As described in chapter five, the emphasis of the private home as a store of value in Britain coincides with the rise of asset-based welfare in Britain since the late 1990s, which has seen a greater emphasis on the home as a source of financing for welfare goods.

Access to welfare goods in systems of asset-based welfare is contingent on being able to access mortgage finance as a means of either purchasing a property, to accumulate housing wealth, or, without selling the property one inhabits, withdrawing equity from the property to spend the accumulated wealth. In Britain, mortgage finance can normally only be accessed by those in full-time employment, as lenders seek to mitigate their lending risk by ensuring that the borrower has a sufficient income to repay the loan for the full duration of the mortgage term. The necessary reliance on mortgage finance to access private housing as the dominant

vehicle for asset-based welfare suggests that there is a two-tiered system of workfare in Britain. The first tier is related to the poorest in British society, who are only able to access state-funded welfare goods and services if they accept a social obligation to seek employment. The second tier of workfare is related to those above the means-tested poverty level, who are reliant on the home as a source of funding for welfare goods, and access to those is dependent on the individual meeting their debt obligations to a mortgage lender which necessitates them staying in full-time employment. Therefore, the British model of workfare can be understood in part as a system of debtfare, as the state has facilitated access to mortgage debt through repeated deregulation policies, and subjected workers to the disciplinary mechanisms of mortgage finance that encourage the worker to behave as an acceptable credit risk (Soederberg, 2014; Langley, 2014).

The Danish model of workfare is very different from the British system of debt-based workfare, as the Danish social obligation is limited to finding employment, rather than to be faced with the additional disciplinary effects of debt, as in Britain. When asked whether the differences in welfare state structures between Britain and Denmark could explain the importance of the home as a financial asset in Britain, the board member of the Danish Central Bank stated: “Yes, you look at your economy as a whole, and you have to take everything into consideration. I think it is correct that Danes expect that as pensioners they will almost be as well off today as when they were workers, so they don't need to build up a large equity in their homes, as they don't see the need of having a large financial reserve” (Interviewee 11, 2016). Such a view was supported by a cross-bench peer at the House of Lords, who was asked whether the home was an important financial asset in Britain because of the lack of welfare state support, and replied (Interviewee 13, 2016):

*If the pension wasn't good enough, then you'd be in trouble as a tenant as you're not going to find it easy, unless the pension was nearly 100 per cent of your previous earnings, which even in Denmark, I think you'd be pushing it to get that far. If there was care, yes, you wouldn't need to cash in and move into residential care and have an asset of £100,000 or £500,000 or whatever your house is worth. So, yes, if all of those things are in place and if you trust the government to manage the national finances that they will remain in place in 25 years' time, or possibly 50 years' time, then fine. But, there may be a part of the psyche of Britain that we are not absolutely certain that all of those things would happen for us and we could take out our own insurance by having and accumulating that asset*

These differences between the Danish and British systems of workfare may be linked to the disparate disciplinary effects of mortgage debt on wages observed between the two countries

in the quantitative analysis in chapter four. In Britain, the home is considered one of the most significant financial assets that could be considered a sufficient source of retirement income. In contrast, private pension systems tend to be underfunded in Britain, which, in turn, places a greater emphasis on the home as a financial asset; therefore, the threat of mortgage default not only carries the threat of being evicted from one's home, but also the loss of one's savings for retirement. The increased importance of the home as the predominant financial asset for retirement reinforces the "investor identity" of the borrower by increasing the potentially negative effects of mortgage default. Therefore, the differences in welfare state structure suggest that exposure to the British workfare-debtfare system may increase the disciplinary mechanisms of mortgage finance, thereby establishing the conditions leading to the reduction of the wage share observed in Britain but not Denmark, as identified in the quantitative analysis of chapter four. The results from this analysis provide evidence for the trade-off between private homeownership and a strong welfare state (e.g. Kemeny, 1980; 2005), as opposed to the trade-off between private homeownership and strong pension provision (e.g. Castles, 1998; 2005).

### **Systems of Wage Bargaining and Industrial Relations**

This thesis has sought to examine the effects of mortgage credit as a disciplinary mechanism in advanced capitalism, which may be mitigated through increasing the wage of the employee, thereby reducing the disciplinary weight of the mortgage payment. Systems of wage bargaining differ between countries, which may explain the divergent results observed in the quantitative analysis of chapter four. Wage negotiations are either performed through decentralised individual agreements between employees and their employer, or centralised systems of collective bargaining agreements. Collective bargaining may be understood as the "voluntary negotiation between employers or employers' organisations and workers' organisations, with a view to the regulation of terms and conditions of employment by collective agreements" (de Silva, 1996, 3). Collective bargaining agreements are formally institutionalised through trade union membership, where the trade union will negotiate wage remuneration for the employees it represents. The reduction in the wage share in financialised capitalism can be linked to the "structural weakness of organised labour" that has marginalised the ability of workers to successfully bargain for higher wages (Bengtsson and Ryner, 2015, 19). Therefore, collective bargaining is thought to improve the bargaining

position for workers, which will lead to a subsequent increase in wages compared to countries with largely decentralised bargaining systems (Stockhammer, 2013, 8; 43). Alternatively, decentralised wage negotiations are largely between the individual and the firm, who are represented by the finance and human resources departments, as well as the worker's line manager. The pay award is often determined on performance-based criteria set by the representatives of the firm, and how the employee meets those performance expectations.

The British system of wage negotiations has changed dramatically since the 1980s. In 1983 approximately 80 per cent of manual workers and 50 per cent of service industry workers in Britain were covered by collective bargaining agreements through high levels of trade union membership (Nickell and Andrews, 1983, 183). However, the labour movement in Britain has been identified as having an antagonistic relationship with employers, which resulted in widespread strikes and, in some more extreme cases, militant violence. Many of the anti-union measures adopted by the Thatcher government contributed to a sharp decline in union membership from a peak of approximately 13 million members in 1979 to about 7 million in 2013 (Towers, 1989; DBIS, 2016, 22). As a result of this decline in union membership, the proportion of employees whose wages are influenced by collective bargaining agreements in 2015 has been reduced to 38.7 per cent in large firms with more than fifty employees, and 16 per cent in smaller firms with less than fifty workers (DBIS, 2016, 8). In Britain, collective bargaining agreements are more prevalent in public sector administration and the defence sector, yet there is little collective bargaining outside the public sector (DBIS, 2016, 8; Broughton, 2009). The wage bargaining system for the private sector in Britain is highly decentralised, with most wage negotiations handled at the level of the individual employer and employee (Broughton, 2009). In these negotiations, firms seek to assess the employee's wage demands with their respective value to the firm, where the employee seeks to place upward pressure on their wages, whilst the employer seeks to maintain downward pressure on employee wages, which makes Smith's (1976) observations about the underlying antagonism about wage demands in 1700s still relevant today. The notion that collective bargaining can improve wage rates is supported by the data in the British case, as the trade union wage gap, which is defined as the percentage difference earnings between union and non-union members compared, was 16.1% in 2015 in the public sector and 7.7 per cent in the private sector (DBIS, 2016, 14).

In contrast, approximately 67 per cent of workers belong to a trade union in Denmark, and collective bargaining agreements cover about 80 per cent of the active labour force



(Ibsen, 2012, 2). However, the Danish wage bargaining system is part of a wider network of industrial relations that has features of both voluntarism and corporatism (Knudsen and Lind, 2012, 382). The Danish system is voluntarist in that rules of action are agreed upon between employer associations and trade unions, which both recognise the right for workers to collectively bargain for wages, whilst the trade unions recognise the right of the employer to manage the firm (Knudsen and Lind, 2012, 383). This voluntarism has seen both sides come to an understanding that would include a “no-strike agreement” for workers when a collective bargaining agreement had been reached, which has contributed to a more peaceful relationship between trade unions and employer associations in Denmark than in Britain (Lykketoft, 2009, 16). The corporatist features of the Danish wage bargaining system are linked to how the state acts as one part of a tripartite relationship with trade unions and employers (Knudsen and Lind, 2012, 383). The Danish state has established a series of institutions to mediate the relationship between trade unions and employers association, such as the Labour Court, which deals with labour disputes (Knudsen and Lind, 2012, 383). Additionally, although Danish unemployment benefits are administered by the trade unions under the “Ghent-system”, the state also provides generous funding for unemployment benefits, as well other welfare services that can improve the employees chance of reemployment that form part of the wider labour market activation policies. Therefore, the Danish state may be understood as attempting to establish a system that establishes and maintains a functioning relationship between employers and employees through institutions such as the courts and the welfare state as a means of reproducing the wider economy as a whole in the corporatist tradition, as suggested by Panitch (1980).

The cooperative relationship between employer associations and trade unions in the tradition of Danish corporatism may be considered an aggregated version of the collaborative relationship between workers and employers at the level of the firm. Employee satisfaction is strongly related to the level of internal work motivation, and Danish workers are considered to be highly satisfied and internally motivated to work (Eskildsen et al, 2004). One reason for the high levels of motivation found in Danish workers is due to the positive working relationship employees have with the management of a firm, who seek to encourage workers in many aspects of their employment (Eskildsen et al, 2004). Such a view was supported in an interview with a Vice-President of a Danish factory, who said (Peterson, quoted in Cliffe, 2014):

*Profit is how we treat the people, how we can get their passion to work, how we can get their social capital, you could say. We can lower the power distance, we can get them to take a little risk here, take a little chance there to improve, doing a little experiment with their machine, so they can see if they do it like this, then they can do it a little better, instead of being based on fear and just managing by rules*

Another means of empowering workers is for there to be an employee representative on the board of a firm, which is common in Denmark (Jackson, 2005). Employee representation on the board of a firm can benefit both parties, as it allows firms to include workers in the management decisions, which, in turn, allows employees to understand the decisions that the firm has taken. Including workers on the board allows for the cultivation of the mutual interest of workers and employers, which is the strong economic performance of the firm that can provide employment and wages. In an interview with an employee on the board of their firm, there was an acknowledgement that: “We promise that we will work for the best of the firm, because if it is not good for the business, we can’t do it” (Christiansen, quoted in Cliffe, 2014). Additionally, including employees in the decision making of the firm can reduce the sense of distance between workers and their employers as “it is not them and [us]; we are together about this” (Christiansen, quoted in Cliffe, 2014).

Including employees on the board does not only benefit workers though, as employee representatives are also consulted on how to make difficult restructuring decisions. When asked how they make decisions about cutting pay or letting people go in a recession, the employee on the board stated: “I am only thinking what is best for the firm; it could be that I am losing my best friend, maybe, but if it is best for the firm, then I have to do it. That is my job” (Christiansen, quoted in Cliffe, 2014). Although such a stance may seem cold or uncaring, one must bear in mind that the Danish workfare state generously funds unemployment benefits and human capital development programmes, which would allow the terminated employee to sustain themselves and find alternative employment elsewhere. The inclusive nature of the relationship between workers and employers sees both parties align themselves to securing their mutual interest, which is to maintain a positive economic outcome for the firm. Therefore, the corporatist nature of the Danish state that reproduces the wider conditions for economic growth, instead of the interests of a specific social, economic or political faction, can also be identified at the level of firm, as employees understand the success of the firm safeguards the mutual interest of both them and their employers.

Overall, this section has highlighted how the antagonistic relationship between employees and employers in Britain may leave workers isolated in wage bargaining with

their employers, which is not the case with the high levels of cooperation and collective bargaining in Denmark. In the British case, the isolation of the worker reduces their ability to bargain for higher wages, which subsequently increases their financial vulnerability when exposed to household debt (Grey, 1997; Langley, 2007). Therefore, the centralised wage bargaining system present in Denmark that is based on voluntarist and corporatist principles, may help mitigate the disciplinary effects of mortgage debt, which may also explain why there is no relationship between the increase in mortgage debt and the reduction in the wage share in Denmark, as there is in Britain.

## **Conclusion**

The preceding empirical chapters of this thesis have shown how mortgage credit has been used by the state as a technique of power to meet objectives that go beyond the promotion of private housing itself. The results from the empirical chapters of this thesis suggest that there are three key reflexive policy areas that exist as horizontal structures within the state, which may influence how systems of mortgage credit can be linked to the distributional outcomes observed in chapter four: the structure of the mortgage system; the structure of welfare provision; and the structure of industrial relations. Therefore, this final empirical chapter has complemented the previous research through a comparative analysis that has demonstrated that systems of mortgage finance are integrated into the wider political economy of both Britain and Denmark. The first section of this comparative analysis focused on the differentiated structure of the mortgage systems in both countries. The analysis suggests the stability endogenous to the Danish mortgage system ultimately benefits the borrower by providing access to low-cost housing finance. Alternatively, the British mortgage model is characterised by an inherent instability, which requires the interest rate risk to be absorbed by the borrower and can lead to periods of economic crisis not observed in the Danish mortgage model. The results of the comparative analysis of the two cases also suggest that the increased financial burden of mortgage provision in Britain may subsequently increase the disciplinary weight of the mortgage repayment cost when compared to the Danish mortgage system.

Although both Britain and Denmark have implemented systems of workfare, which encourage unemployed workers to find employment through a series of activation policies, there are significant differences between the two systems. The British system looks to push workers back into employment, whilst the Danish system is based on a human capital

development approach, which empowers workers to find new employment by allowing them to develop new skills. The disparities in social protection are also echoed by the differences in the systems of pension provision between the two states. Danish pension provision is largely covered by contributions to the state or through employment based programmes that are very strongly funded, which negates the need for workers to treat the home as a retirement asset. Alternatively, in Britain, private pension systems are often underfunded, which has led the private home to be considered the predominant retirement asset for many workers. The emphasis on the home as a vehicle for retirement income suggests that the threat of mortgage default not only carries the threat of being evicted from one's home, but also the loss of life-long savings for retirement. Therefore, the importance of the home as the predominant financial asset for retirement in the British system of asset-based welfare reinforces the "investor identity" of the borrower by increasing the potentially negative effects of mortgage default. Therefore, the differences in welfare state structure suggest that exposure to the British workfare-debtfare system may increase the disciplinary mechanisms of mortgage finance.

The third and final section of this comparative chapter has highlighted the differences in wage bargaining systems and industrial relations between Britain and Denmark. In Britain there has been a history of an antagonistic relationship between employees and employers. Additionally, the widespread shift from collective bargaining to individual pay negotiations that occurred during the 1980s may leave workers isolated in their wage bargaining with their employers, which is not the case with the high levels of cooperation and collective bargaining in Denmark. In the British case, the isolation of the worker reduces their ability to bargain for higher wages, which subsequently increases their financial vulnerability when exposed to household debt (Grey, 1997; Langley, 2007). In sum: the results of the comparative analysis of this chapter have suggested that the increased cost of mortgage provision in Britain, combined with the reliance on the private home as a financial asset in the British system of asset-based welfare and the antagonistic non-cooperative relationship between workers and employers may explain the increased disciplinary weight of mortgage debt in Britain when compared to Denmark.

## Conclusion

““You don’t need to accept everything as true, you only need to accept it as necessary.”

“Depressing view,” said K., “The lie made into the rule of the world.””

Franz Kafka (1970, 276)

The introductory chapter of this thesis highlighted a key issue in the political economy of financialisation, which this project has sought to examine: why is it that, despite the severity of the failures and costs manifested by the GFC, the global dominance of the financial sector has largely gone unchallenged, and why has the financial system itself been relatively immune to any meaningful reform? The prevailing orthodoxy to explain such a phenomenon is provided by Neo-Weberian scholars, who currently dominate this research area. The Neo-Weberian position suggests that governments maintain deregulated financial markets to facilitate access to the social norm of owner-occupied housing, as well as the financial gains from the private home as a financial asset. However, this thesis has highlighted that whilst the Neo-Weberian position makes an important contribution by placing an emphasis on the everyday life of wage earners in establishing bottom-up consent to the political and economic infrastructures the individual finds themselves in, it fails to provide a sufficient account of the government manipulation of social norms. Additionally, Neo-Weberian scholarship also fails to explain why citizens would actively demand to engage with the structural path dependencies of mortgage finance promoted by a political system that has not overseen the widespread improvement in the distribution of material gains from the housing asset or the wage share of national income.

The introductory chapter presented two specific research questions to further examine these key issues. The first question assessed whether there was any meaningful relationship between the falling wage share and the vast expansion of mortgage credit across the different varieties of capitalism. Whilst the second question sought to identify the public policy *formulation and implementation* processes that would need to be present in order to explain the observation or absence of such a phenomenon between different varieties of capitalism. These questions were investigated through the use of a mixed-methods research design, which focused on a comparative analysis of Britain and Denmark as case studies. The justification for the selection of these countries as case studies in this analysis is based on *prima facie* evidence that both countries have experienced an absolute reduction in the wage

share of national income (e.g. Stockhammer, 2013), combined with increasingly advanced financialised housing markets despite being considered widely differentiated states according to several varieties of capitalism typologies (see chapter two for a detailed examination of the different VOC typologies). The rationale behind such a case selection is that any common outcome in these “most different” cases could allow for the identification of a possible general mechanism of advanced capitalist society. The overall structure of the thesis is divided into two distinct sections over seven chapters: the first part covers the first three chapters, and describes the pertinent literature relevant to this project, as well as the theoretical framework and methods deployed. The empirical analysis is presented in the second section, which makes up the last four chapters.

The first chapter of this thesis reviewed the relevant literature relating to the political economy of financialisation and mortgage credit, as well as the determinants of the wage share of national income and Marxist state theory. The outcome of the analysis of the most pertinent sources related to the political economy of financialisation suggests that the most plausible explanation for the bottom-up adherence to the wider political and economic infrastructure can be linked to the Marxist position, which emphasises the desire for workers to engage with financial services to mitigate the loss of subsistence for themselves and their families. Loss aversion can also be linked to the examination of the determinants of the wage share through the identification of household debt as the main driver of the observed reduction of the wage share in advanced economies. Taking on household debt establishes investor identities for borrowers, which marginalises their wage bargaining power as loss averse borrowers seek to maintain access to credit and avoid the negative consequences of debt default. As mortgage credit is the largest source of household debt, and the state is a key driver in the expansion of mortgage debt observed in advanced economies, the first chapter also examined the theoretical precepts of four key Marxist theories of the state; State Monopoly Capitalism, Open Marxism, the *Staatsableitung* (state derivation) approach, and Neo-Gramscianism.

Although each of these Marxist state theories has their merits and considerations, the second chapter of this thesis made the case for Jessop’s SRA, which amalgamates these different positions and forms the core of the theoretical framework of this project. The SRA was used to emphasise that the state itself may be considered a set of institutions designed to implement legislative policy decisions, and are unable to exercise power of their own. Competing hegemonic visions attempt to secure control over the state apparatus, which involves the amalgamation of different economic, political and ideological factions into

accepting a hegemonic vision that manufactures a relative unity of antagonistic social forces into a functioning social formation. In Marxist terms, the SRA suggests states may only be considered capitalist to the extent in which the state facilitates and reproduces the conditions for capital accumulation. In order to achieve the objectives of the hegemonic vision (i.e. capital accumulation in capitalist states) a series of incentives and disciplinary mechanisms are implemented through the state apparatus as techniques of power. The incorporation of Foucauldian governmentalities into the SRA can be used to explain individual agency in the acceptance of the incentives and disciplinary mechanisms initiated by the hegemonic vision through the state apparatus. The coherent ideational logic may be produced from within or without the state apparatus, but can be promoted by the hegemonic vision through the discursive communication of the policies implemented by the state. In sum; the SRA was used to account for the Marxist explanation of the struggle for the profits of production between wages and capital to be used to understand the direction of the motivations behind a hegemonic vision's choice of actions when in control of the state institutions in financialised capitalism. Whilst the Foucauldian understanding of incentives and disciplinary mechanisms as governmentalities was used to identify the "techniques of power", used to meet those objectives (Foucault, 1979, 11).

The third chapter provides an outline and justification for the mixed-methods research design used to assess the two research questions of the thesis. The method used to examine the first research question was based on a series of quantitative econometric regression models using time-series data. Whilst the second research question was evaluated using qualitative methods in the form of a descriptive comparative case study between Britain and Denmark, with a particular emphasis on the use of process tracing. This third chapter also outlined the relevant quantitative and qualitative data collection techniques used by this project. One particular challenge faced by this project was the lack of an available pre-collated quantitative dataset, and the third chapter describes the various sources of data used in the construction of an original quantitative dataset for this thesis. Data was collected from central banks, professional mortgage associations, and national statistical offices to establish a complete and comparable dataset between 1979 and 2012 for each case in this quantitative analysis. The primary qualitative data was collected from interviews with political and economic elites, as well as important actors in the mortgage sector. All other information collected for this project was obtained from documents that were obtained from secondary and unsolicited sources.

The fourth chapter marked the start of the empirical section of this thesis through a quantitative analysis of the effects of mortgage debt on the wage share of national income in Denmark, Sweden, Britain and the USA. Although Denmark and Britain were the only cases examined by this thesis, the USA and Sweden were included as comparative cases to provide a degree of validation in this quantitative analysis. The quantitative analysis consisted of an examination of descriptive statistics, as well as eight regression models used to test whether there was any relationship between the increased distribution of mortgage credit and the wage share in each case. The eight models consisted of two time series cross-section panel data models that examined the pooled data from all four countries, where one was a random effects model and the other was a fixed effects model, which was then followed by a time series model of each individual country. The seventh model was a panel data model that examined the liberal VORC countries only, the UK and the USA, while the eighth model was a pooled analysis of the non-liberal VORC, Sweden and Denmark. The results from the individual and pooled data regression models answered the first research question of this project, and demonstrated that the increased distribution of mortgage credit has had a negative effect on the wage share of national income in the liberal markets of the UK and the USA, whilst there is no such relationship present in the non-liberal markets of Denmark and Sweden. The results demonstrated that there is no meaningful relationship between the falling wage share and the vast expansion of mortgage credit that is generalisable across the different varieties of capitalism. The different results obtained in the cases of Britain and Denmark suggest that the effects of mortgage credit on the wage share may not be considered a generalisable feature of advanced capitalism, but rather the effects are limited to the structures of the political and economic institutional configurations within each state.

The fifth chapter presented a qualitative case study analysis of the British case, which was used to answer the second research question of this project, as it provided a retroductive understanding of the conditions that could explain the negative relationship between the increased distribution of mortgage credit and the reduction of the wage share identified by the quantitative analysis in chapter four. The data collected to assess the conditions that would make such a relationship plausible was largely collected in the form of unsolicited document analysis from secondary sources, such as the Thatcher archive, as well as interviews with policy makers. This chapter described how the Thatcher government promoted private housing to establish a mortgage debt-led accumulation regime, which generated vast sums of revenue for the financial sector, and stimulated Britain's waning economy. Engaging with mortgage credit shifts labour market preferences from demanding wage growth to stable



employment, and was used by the Thatcher government to peacefully integrate disruptive trade union members into liberal capitalism. The results from the British case suggest that the worker may be considered the direct object of government mortgage policy, which can be linked to disciplinary mechanisms of mortgage finance that act as a mode of behaviour regulation. The mortgage-led accumulation regime and mode of behaviour regulation established by the Thatcher government was reproduced by the administrations that succeeded it. New Labour introduced a series of ABW policies that relied on the private home as a vehicle to access private welfare services, which was a policy continued by the Coalition government. The reliance on mortgage debt to access private welfare services suggests that Britain may be understood as a type of financialised “debtfare” state. Yet, the reliance on mortgage finance to access private welfare is contingent on the members of the household having paid employment. Therefore, the privatisation of welfare services that are largely only accessible by engaging with mortgage debt has established a workfare-debtfare hybrid state that restricts access to welfare goods based on the individual’s employment status and generates vast sums of revenue for the financial sector. The overall analysis from chapter five suggests that the presence of a mortgage-led capital accumulation regime that disciplines borrowers to accept lower wage growth in exchange for stable employment would be the condition that explains the negative relationship between an increase in mortgage credit and the reduction of the wage share observed in Britain by the quantitative analysis in chapter four.

As the quantitative analysis in chapter four demonstrated that there was no meaningful relationship between the distribution of mortgage credit and the wage share in the Danish case, the sixth chapter sought to identify the key motivation for state intervention in the Danish mortgage market. Mortgage policy is tightly controlled by the Danish government, and has undergone a series of liberalisations since 1989, which, according to the Neo-Weberian position, should equate to an increase in the owner-occupation rate. However, the owner-occupation rate in Denmark has actually declined since the 1970s, despite the vast increase in mortgage credit observed in the analysis of descriptive statistics of the Danish case in chapter four. The interviews with policy-making elites in Denmark demonstrated that the changes in mortgage regulation are considered a specific technical mechanism that allows the central government to meet their wider economic policy objectives. The deregulation of mortgage credit was identified as a means of increasing consumption in the Danish economy, as well as a tool of monetary policy that was used to address the balance of payments deficit, which was considered the main economic challenge facing the Danish economy between the

1960s and the 1980s. The balance of payments problem was solved at the expense of full-employment, which suggests that the 1986 “potato diet” may be considered Denmark’s own version of the Volcker shock, with developing a balance of payments surplus as a priority, rather than inflation targeting, as with the US Federal Reserve. The analysis of the Danish case has suggested that mortgage credit has been used by the Danish state as a domestic policy tool, as the integration of Denmark to the international monetary system and the European Union have voided the use of traditional fiscal and monetary interventions. The results of this analysis also suggest that there is a reflexive link between the cascading vertical structures of governance, from the international to the national, as well as economic institutions and the level of the individual. Overall, this chapter argues that the motivation for the Danish state’s interventions in the mortgage market can be linked to the wider objective of reproducing the conditions for capital accumulation via economic growth, rather than favouring a particular social, political or economic faction. Therefore, in contrast to the British case, in Denmark the worker may only be considered an indirect object of regulation, as the main object of mortgage policy is to regulate the functioning of the wider economy.

In order to explain the differences in the relationship between the distribution of mortgage credit and the wage share identified in Britain and Denmark in chapter four, the seventh chapter outlined a comparative analysis of how mortgage credit is integrated into the wider political economy of each case. This chapter focused on an examination of the key institutional differences in the mortgage systems, systems of welfare provision, and wage bargaining and industrial relations, in each case. The comparison of mortgage systems suggested that the stability endogenous to the Danish mortgage system ultimately benefits the borrower by providing access to low-cost housing finance. Whilst, alternatively, the British mortgage model is characterised by an inherent instability, which requires the interest rate risk to be absorbed by the borrower and can lead to economic crises not observed in the Danish mortgage model. The comparison of welfare provision in both cases demonstrated that whilst Britain and Denmark have implemented systems of workfare, the British system looks to push workers back into employment, whilst the Danish system is based on a human capital development approach. Additionally, Danish pension provision is largely very strongly funded, which negates the need for workers to treat the home as a retirement asset. Conversely, in Britain, private pension systems are often underfunded, which has led the private home to be considered the predominant retirement asset for many workers. The examination of wage bargaining and industrial relations in Britain and Denmark revealed that the widespread shift from collective bargaining to individual pay negotiations in Britain has

left workers isolated when bargaining for wages with their employers, which is not the case with the high levels of cooperation and collective bargaining in Denmark. The overall results of the comparative analysis in chapter seven demonstrated that the increased cost of mortgage provision in Britain, combined with the reliance on the private home for material gains in the British system of asset-based welfare and the antagonistic non-cooperative relationship between workers and employers may increase the disciplinary weight of mortgage debt in Britain when compared to Denmark. Therefore, the sixth and seventh chapters of this thesis answer the second research question as it pertains to the Danish case, and they have explained why there is an observed negative relationship between the increase in mortgage debt and the reduction of the wage share in Britain, but not Denmark.

The overall objective of this thesis has been to provide an answer to the important question posed by Gamble (2014), which asks why, despite the severity of the failures and costs manifested by the GFC, has the global dominance of the financial sector largely gone unchallenged, and why is it that the financial system itself has been relatively immune to substantive reform? The results of the analysis of this thesis suggests that the financial system has been relatively immune to reform as is understood as part of a coherent logic as something that is necessary by all parties, from the top-down to the bottom-up, to meet their specific objectives. In the British case, successive governments have sought to facilitate access to deregulated mortgage credit as a means of instilling a demand for employment in the British public, which is congruent with the workfare policies implemented as part of a changing welfare state. From a bottom-up perspective, the British public have demanded access to deregulated mortgage credit to maintain access to the idealised good of private housing, as well as the financial gains from the housing asset as a vehicle of the debtfare system, which makes the private home the dominant source of wealth in asset-based welfare. However, access to mortgage finance is contingent on accessing income from employment, which also establishes the British ABW system as a form of workfare. In the Danish case, the government has deregulated mortgage credit as a means to achieve their wider objective of economic growth in a small export-orientated state that has had the traditional fiscal and monetary policy intervention tools made ineffective by adhering to international monetary regulations. From the bottom-up, the Danish homeowners have accessed deregulated mortgage credit as a means of reducing their monthly debt obligations and maintaining consumption in light of mandatory savings requirements. Therefore, the results of this thesis have demonstrated that there is a generalisable logic within advanced capitalism, in that maintaining access to financial services has been understood as necessary by most parties,

which has increased the engagement with financial products and driven the growth and dominance of the financial sector. The diffusion of such a logic suggests that there is little motivation to curb the activities of the financial sector, which may have significant impacts through future crises.

In line with the overarching narrative of comparative political economy, the policy implications of the analysis performed and outlined by this thesis are different for Britain and Denmark. In the British case, there is a tension between people needing access to mortgage credit to augment their wealth from a source of income other than wages, yet the ability to service that mortgage debt is contingent on their wages. The negative relationship between the increase in mortgage debt and the reduction of the wage share suggests that the British economy may reach a point where it is no longer able to service its mortgage debt obligations due to a reduction in waged income, which suggests that the onset of another (or repeated) mortgage debt-induced crisis lies on the horizon in Britain. To potentially avoid such a crisis, there are three main policy recommendations that emerge from the comparative analysis of the Danish and British cases. The first policy recommendation is based on the inherent stability of the Danish mortgage system. Adopting such a model would provide British homeowners with long-term and secure access to mortgage finance, which could also stabilise the British financial system that has suffered repeatedly from periods of crisis in the past. The second policy recommendation is based on the Danish welfare system, as improving the ability of unemployed workers to develop their human capital, through higher and further education programmes, could allow workers to improve their chances of re-employment and increase their wage-earning potential. The third and final policy recommendation is to encourage the development of cooperative style industrial relations in British firms and public institutions, which would allow workers and employers to develop a more harmonious relationship where they could focus on achieving their mutual interests. However, such a cooperative relationship could only be feasible if implemented concurrently with the changes in the welfare state mentioned above, which would take care of workers if the economy was not performing well. In the Danish case, the results of this analysis suggest only a single policy recommendation, which is that any changes that could be made to the mortgage system must be resisted. This is despite pressures from influential domestic banking institutions, who wish to make the mortgage product a profit-making vehicle, and international financial actors, such as the Basel Committee, who wish to harmonise the financial system in a manner that may be detrimental to the wider stability of the Danish economy.

One of the main theoretical contributions made by this thesis is the identification that financialisation does not take the same form in each state, therefore, there may not be a single generalisable understanding of what financialisation is as a phenomenon in advanced capitalism. Such a development suggests that a series of typologies of financialisation could be established, as different countries have different means and degrees of engagement with financial services, and there are different financial product innovations implemented in each state. However, as this project only focused on the two cases of Britain and Denmark, the development of any typologies of financialisation are beyond the scope of this thesis, and may be considered an area that could be researched further in a future project. Although necessary due to the word count limitations placed on this thesis, the decision to focus only on the two cases of Britain and Denmark is a significant limitation, as it exposes the thesis to a degree of selection bias. Both cases were selected on having a similar dependent variable of a negative wage share, coupled with a similar independent variable of a vast increase in mortgage debt. However, it was not thought that a generalisable relationship between the wage share and mortgage credit would have been identified due to the highly differentiated political, economic and social institutional configurations of each state.

The potential selection bias issue could be addressed through a further qualitative examination of the cases of the USA and Sweden, which were identified as having similar quantitative results to the UK and Denmark respectively in chapter four. Additionally, such an analysis would provide a means of testing whether these four cases could be incorporated into a set of varieties of financialised capitalism. The results of the qualitative assessment of the Danish case have made a significant contribution through the identification of mortgage credit as a technique of intervention in the domestic economy, largely due to the integration of Denmark into international economic systems. The contribution could be further strengthened if applied to other countries with high levels of mortgage debt in the EU, such as the Netherlands. Finding other states that use mortgage credit as a means of intervention in the domestic economy would provide a justification to research the desire of international financial bodies to regulate mortgage credit systems across states.

Although the quantitative econometric analysis did demonstrate that there is a causal relationship between an increase in mortgage debt and the reduction of the wage share in the liberal markets of the UK and the USA, the “investor identity” mechanism that connects the two variables has been specified in such a way that does not allow for it to be tested in this analysis. From a Critical Realist perspective, the results have identified that mortgage debt is an underlying causal mechanism in the reduction of the wage share. Although the

relationship between mortgage credit and the wage share was articulated more comprehensively in the British case described in chapter five, a description that would make the relationship plausible in the case of the USA could be considered an avenue for future study. Another way to address the weak causality of the macro-level examination of both the UK and USA cases could be to incorporate a micro-level analysis of wages and mortgage payments into a multi-level model that would add further weight to the understanding of the disciplinary effects of mortgage debt on wage growth. Additionally, the introduction of a micro-level analysis may allow for an examination of the disciplinary effects of mortgage debt by income decile, which would allow for the identification of those income groups most effected by the disciplinary mechanisms of mortgage credit.

**Total Word Count: 80,599**

## Interview List

- Interviewee 1: Economist and Researcher at a Danish Trade Union for manual workers; interviewed via telephone, 19 November 2015.
- Interviewee 2: Former inner London Councillor and member of the council housing committee; interviewed in London, 24 November 2015.
- Interviewee 3: Head of Policy at a British Professional Mortgage Association; interviewed in London, 30 November 2015.
- Interviewee 4: Senior Policy Officer at a British Trade Union; interviewed in London, 11 December 2015.
- Interviewee 5: Former Housing Policy Advisor to the British Government; interviewed via telephone, 18 December 2015.
- Interviewee 6: Head of Marketing at a British Mortgage Provider; interviewed via telephone, 21 December 2015.
- Interviewee 7: Lord Michael Howard, former Minister for Housing and Conservative MP from 1983-2010; interviewed in London, 14 January, 2016.
- Interviewee 8: Independent Mortgage Marketing Professional and Former Board Member of a British Mortgage Provider; interviewed via telephone, 8 January 2016.
- Interviewee 9: Head of Mortgage Investments at a London Asset Management Firm; interviewed via telephone, 21 January 2016.
- Interviewee 10: Department Head at a Danish Professional Mortgage Association; interviewed via telephone, 03 February 2016.
- Interviewee 11: Member of the Board of Directors at the Danish Central Bank (*Danmarks Nationalbank*); interviewed in Copenhagen, 01 March 2016.
- Interviewee 12: Mortgage Policy Analyst at the Danish Financial Regulator (Finanstilsynet); interviewed in Copenhagen, 03 March 2016.
- Interviewee 13: Member of the House of Lords involved in the Housing Committee; interviewed in London, 10 March 2016.
- Interviewee 14: Director of a Danish Housing Think Tank; interviewed in Copenhagen, 29 March 2016.
- Interviewee 15: Former Senior Civil Servant at the Danish Ministry of Economic Affairs (*Erhvervs-og Vækstministeriet*); interviewed in Copenhagen, 06 April 2016.
- Interviewee 16: Senior Economist at a Danish Mortgage Provider; interviewed in Copenhagen, 07 April 2016.

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## Appendix A – Description of Quantitative Data Sources

Data Collected	Regression Variable	Country	Time-Scale	Obs	Source
Nominal GDP at Factor Cost	Wage Share of GDP	UK, USA, Denmark, Sweden	1979-2012	136	AMECO (2015)
Employee Compensation	Wage Share of GDP	UK, USA, Denmark, Sweden	1979-2012	136	AMECO (2015)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	UK	1979-1991	13	CML (1997)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	UK	1992-2012	21	Rex (2013)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	Sweden	1979-2012	34	Statistics Sweden (2015)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	USA	1979-2012	34	FRED (2015)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	Denmark	1979-2011	33	Abildgren (2012)
Outstanding Mortgage Debt	Outstanding Mortgage Debt	Denmark	2012	1	Realkreditraadet (2015)
Unemployment	Unemployment	UK, USA, Denmark, Sweden	1979-2012	136	AMECO (2015)
Ideological Centre of Gravity of Parliament	RILE Index	UK, USA, Denmark, Sweden	1979-2012	136	Volkens et al (2015)

## Appendix B – Description of Qualitative Data Sources

Number of Documents	Institution	Country	Time-Scale
82	Academic journal articles	UK, DK	1979 - 2012
24	Books	UK, DK	1979 - 2012
1	Churchill Archives Centre, Churchill College, Cambridge, the Papers of Baroness Thatcher (THCR) (1/15/6)	UK	1979 - 1986
1	Churchill Archives Centre, Churchill College, Cambridge, the Papers of Baroness Thatcher (THCR) (2/6/1/37)	UK	1975 – 1979
2	Churchill Archives Centre, Churchill College, Cambridge, the Papers of Baroness Thatcher (THCR) (2/6/1/163)	UK	1975 – 1979
1	Churchill Archives Centre, Churchill College, Cambridge, the Papers of Baroness Thatcher (THCR) (2/6/1/233)	UK	1975 – 1979
1	Churchill Archives Centre, Churchill College, Cambridge, the Papers of Baroness Thatcher (THCR) (2/6/1/248)	UK	1975 – 1979
3	Bank of England	UK	1979 - 2012
5	Danmarks Nationalbanken	DK	1979 - 2012
1	Det Administrative Bibliotek	DK	1969
5	European Commission	UK, DK	1979 - 2012
2	House of Commons	UK	1979 - 2012
10	International Monetary Fund	UK, DK	1979 - 2012
1	National Archives, Prime Minister's Private Office Papers (PREM 19/21)	UK	Jul 1979 – Sep 1979
3	National Archives, Prime Minister's Private Office Papers (PREM 19/24)	UK	May 1979 – Jun 1979
1	National Archives, Prime Minister's Private Office Papers (PREM 19/25)	UK	Jun 1979 – Jul 1979



1	National Archives, Prime Minister's Private Office Papers (PREM 19/26)	UK	Jul 1979 – Aug 1979
2	National Archives, Prime Minister's Private Office Papers (PREM 19/121)	UK	Jun 1979 – Dec 1979
1	National Archives, Prime Minister's Private Office Papers (PREM 19/174)	UK	Mar 1980 – Nov 1980
3	National Archives, Prime Minister's Private Office Papers (PREM 19/256)	UK	May 1979 – Jul 1980
3	National Archives, Prime Minister's Private Office Papers (PREM 19/1005)	UK	May 1979 – Jul 1983
1	National Archives, Prime Minister's Private Office Papers (PREM 19/1199)	UK	Nov 1983 – Mar 1984
1	National Archives, Prime Minister's Private Office Papers (PREM 19/1334)	UK	Sep 1984 – Oct 1984
2	National Archives, Prime Minister's Private Office Papers (PREM 19/1461)	UK	Nov 1984 – Sep 1985
1	National Archives, Prime Minister's Private Office Papers (PREM 19/1711)	UK	Dec 1983 – Feb 1986
1	National Archives, Prime Minister's Private Office Papers (PREM 19/1718)	UK	Feb 1986 – Sep 1986
3	OECD	UK, DK	1979 - 2012
1	Royal Holloway Archives, Alfred Sherman papers (Box 13)	UK	1983-1984